

*By the same Author*

THE HAPSBURG MONARCHY  
THROUGH THIRTY YEARS  
THE REAL STANLEY BALDWIN, ETC.

HALLEY STEWART LECTURE, 1933

1111  
C.37

# A WAY TO SOCIAL PEACE

by

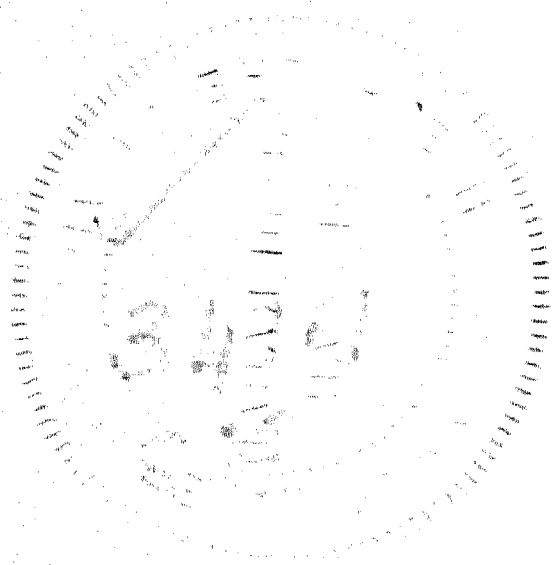
HENRY WICKHAM STEED

LONDON

GEORGE ALLEN & UNWIN LTD

MUSEUM STREET

FIRST PUBLISHED IN 1934



335  
373

Acc. No.	11112.
Class No.	D.6.
Book No.	47

*All rights reserved*

PRINTED IN GREAT BRITAIN BY  
UNWIN BROTHERS LTD., WOKING

# CONTENTS

CHAPTER	PAGE
I. INTRODUCTORY	17
II. COMMUNISM, FASCISM, AND THE “TOTAL” STATE	43
III. MEN AND MACHINES	70
IV. EMPLOYEE PARTNERSHIP: THE MAIN ISSUE	96
V. OBJECTIONS AND ANSWERS	123





# A WAY TO SOCIAL PEACE

## CHAPTER I

### INTRODUCTORY

ANY man who speaks or writes on "Social Peace" is bound to offer some warrant for so doing. It is not enough that he should desire it, nor may his own unaided cogitations upon it justify him in inflicting them on others. My own warrant is, perhaps, slender. It is not the fruit of long working experience of industrial conditions, and it lacks the hall-mark of any recognized school of economic or social thought. To some extent it is individual; and, if my cogitations have not been entirely unaided, if they have been stimulated by the thoughts of others, it is none the less true that they are mainly the outcome of personal observation and study in several countries during the past forty years. So, by way of introduction, I shall set forth, as briefly as may be and without excessive modesty, the premises from which I started and the course which circumstances led me to follow.

\* \* \*

I grew up in a village of East Anglia that was at once agricultural and industrial. Remnants of

the feudal system, with its patriarchal quality and lingering sense of social trusteeship, were to be seen and felt on every hand, particularly in the relations of the lords of the manors to their tenants and dependents; while the "industrial revolution," which the advent of steam-driven machinery had ushered in during the earlier decades of the nineteenth century, made its influence felt in textile factories, and in a foundry for the manufacture of agricultural machinery and implements. With wage-earners and their conditions of life in field and factory I was familiar from childhood, as with their struggles against want, with their efforts to eke out their earnings by the tilling of allotments, and with their attempts to provide against crippling sickness by joining a "Mutual Benefit Society." Relief of actual distress, by the distribution of free coal in winter and other forms of what were meant to be social helpfulness, came also to my youthful notice. Even more impressive was the public spirit of men, like my own father, who never failed to heed the call of what they felt to be their social duty.

Yet it could hardly be said that in East Anglia a "social question" had made itself felt. Of "Socialism" there was little or none, though "advanced" political and religious, or anti-religious, views were not uncommon. The influence of Charles Bradlaugh had already spread to that region, and a kind of atheistic republicanism was professed by

not a few of the bolder spirits in neighbouring villages and townships if not in my own. Mr. Joseph Arch, the first agricultural labourer to enter Parliament, was assuring his fellow labourers that they were "archangels in the House of Commons," and Mr. Jesse Collings' propaganda for small holdings, or "Three Acres and a Cow," as it was called, moved the large wheat and stock farmers to scornful mirth. I heard these things talked of, with much shaking of heads, by the older and better-to-do folk, and wondered why they thought them so dangerous.

It was in the middle 'eighties of last century, when I had attained the ripe age of fourteen, that my interest in social questions was first aroused by discussions upon Old Age Pensions between my father and one of the village curates, a worthy man named the Rev. J. Frome Wilkinson. They agreed that something should be done to mitigate the hardships of old age in the many cases that could not hope for admission to the local "Hospital," or asylum for the elderly, which had been founded centuries before by a pious benefactor, and exists to this day. The workhouse, with its undeserved slur upon the needy, revolted the consciences of these two good men; and I remember reading with more eagerness than understanding a little book which Mr. Wilkinson, who was afterwards recognized as a pioneer in the movement for Old Age Pensions, wrote and published. Indeed, it drew

high commendation from Mr. Joseph Chamberlain himself.

In any event the reading of this book led me, soon after I came to London in 1889, to attend a lecture on Old Age Pensions at Toynbee Hall by Mr. J. A. Spender, with Mr. Charles Booth—author or compiler of the monumental work *Labour and the Life of the People*—in the chair. I remember writing and sending to the old *Pall Mall Gazette* an account of this lecture, and was intensely gratified on seeing it published. This was my first step in London journalism. Afterwards, too, I went to hear addresses by Mr. Charles Booth at the Royal Statistical Society, and was strongly repelled by what seemed to me an inhumane speech from Mr. Loch, the Secretary of the Charity Organization Society, in the discussion which followed.

Mr. Sidney Webb and his wife—then Miss Beatrice Potter, who had helped Mr. Charles Booth to prepare his great work—were directly and indirectly responsible for fostering my interest in these matters. Mr. Webb happened to be a nephew of my first schoolmaster, who was justly proud of him and had held his example before our eyes as one which we should strive to follow. So I subscribed to the publications of the Fabian Society, read the *Fabian Essays*, and bought more books than I could easily digest upon economics and political “science.” Herbert Spencer’s *Sociology* and *The Man versus The State* I also read as a corrective

to Fabian doctrine. Then, wishing to become a journalist, and weighed down by a sense of comprehensive ignorance which I have never succeeded in shaking off, I went to Germany to study political economy—for one abiding impression which Fabian literature had made upon me was that economics were the source of all true wisdom.

\*       \*

Against this impression I had struggled for some time. At school we were bidden to master a *Primer of Political Economy* by Professor Stanley Jevons; and though I scarce dare confess it, this little work had estranged me. By way of illustrating the difference between true and false views of wealth and economy, it explained that should a hailstorm break the glass of greenhouses or cucumber frames in a village, the local glazier might think it good for trade, because he would be called in to repair the damage, and the production of glass and putty would thereby be fostered. Yet in reality, the *Primer* explained, the community would be the poorer for this destruction of wealth in the form of glass, and knowledge of political economy would show that the hailstorm had been a cause of national impoverishment. Perhaps on account of my village upbringing, my sympathies were with the local glazier. I hardly paused to think that my father's own greenhouses and cucumber frames might be

involved in this national loss. All of which goes to prove that my mind, even in those distant days, had an uneconomic bent, and lacked reverence for authority.

In Germany, the acknowledged home of deep learning and profound sagacity, I should surely learn the truth. Was it not an axiom of Victorian England that nothing good could come save out of Germany? But when I knew enough German to follow and read the lectures of Dr. Pierstorff, the chief Professor of Political Economy at Jena University, the old repulsion recurred and grew in strength. In vain did I seek comfort by turning again to Adam Smith and Ricardo. Bootless were my probings into the mysteries of supply and demand: and when I realized that Professor Stanley Jevons' *Theory of Political Economy* culminated in a series of mathematical formulas, I doubted whether what were, after all, largely matters of human relationship could rightly be expressed in so abstract and bloodless a form. The learned Professor Pierstorff did nothing to help me. He was as dry as dry could be, and offered unblushingly the hardest of economic stones to me who had set out in search of the breath, if not the bread, of life. Still, there remained a hope. In Berlin, Professors Gustav Schmoller and Adolf Wagner, the leading exponents of the "historical method" in political economy, were lecturing to crowded classes. Thither I would go to drink wisdom from their lips.

Before leaving Jena for Berlin I saw one interesting and successful industrial experiment. The optical works of Carl Zeiss, soon to be celebrated throughout the world for the excellence of their lenses, had been organized by a University Professor at Jena on a basis that gave the craftsmen a direct personal interest in their work. My memory of the details of this organization is vague; but I remember vividly the will with which the men worked, their pleasure in their craft, and the general feeling that all belonged to the concern of which the aim seemed rather to be the highest standards of workmanship and scientific excellence than the mere making of profit. Whether the men had any share in the profits I do not know, but they certainly had a special insurance scheme of their own and security of employment. It was the first time I had seen an industrial undertaking deliberately organized in a spirit which put achievement first, the welfare of the workers second, and pecuniary reward for the proprietors last. Not until much later did it occur to me that the Zeiss system hardly touched the fringe of the modern social and industrial problem, which is largely that of the relationship between man and the machine, and that there may be no room for expert craftsmanship and scientific artistry in mass production by machinery of growing efficiency and intricacy.



So to Berlin I went with some hope that Wagner, Schmoller, and others would set my feet on the path to a sound knowledge of economics. Day after day and week after week I heard these bespectacled worthies grunt or rasp their way through abstract disquisitions upon economic principles, or enunciate elaborate theorems which Schmoller, at least, sought to demonstrate by methods akin to those of Euclid. Prophets of the "Historical School" though they were, they, too, seemed to postulate an abstract economic individual whose conduct would be governed solely by acute perception of what was and what was not profitable, and whose whole purpose would be to vindicate the laws of supply and demand of which the play might be corrected here and there by the unerring finger of the State. Dimly at first but more clearly as time went on I came to feel that, if political economy was valuable as an explanation of economic processes, causes, and consequences, particularly in the past, it was apt to be sterile or misleading as a guide to the future, and totally inadequate as the basis of a philosophy applicable to living things and human passions. In a phrase I have often used, political economy seemed always to be right about the week before last and generally wrong about the week after next.

Disappointed, though not discouraged, I turned then to the study of philosophy proper, psychology both descriptive and experimental, political

"science," and sociology. I was led, too, to take an interest in current German affairs and to watch the struggle then going on between the Social Democrats and the Government over a projected increase in the German army. Presently I made the acquaintance of prominent politicians, including the famous Social Democratic leaders, Wilhelm Liebknecht, August Bebel, and Paul Singer. They never sought to convert me to Socialism. Rather did they assume that the Marxist dogmas which they propounded could not be questioned by any reasonable mind. The "Social Revolution" for which they were working would, in the fulness of time, set all things right. Their faith struck me as sublime. The willingness with which they and their comrades had gone, or went, to prison for their beliefs certainly entitled them to a measure of respect. Many of their criticisms of the capitalist system, like those of Karl Marx himself, were shrewd and well founded. Yet I saw that the driving power of their movement lay much less in its economic soundness than in the fact that it had become a sort of political and social church in which it was more important to be a true believer than to think things out to the end.

Thanks to my acquaintance with these men I was able, soon after leaving Berlin for Paris, to meet most of the French Socialist leaders, and a large number of what would now be called "intellectuals" of various shades of opinion. French Socialism was certainly very different from German. In it there

seemed to be little dogma, except among the somewhat narrow Marxist sect over which Jules Guesde and Paul Lafargue presided with an approach to pontifical infallibility. Lafargue had married Laura Marx, a daughter of Karl Marx. She gave me a copy of the *Communist Manifesto*, which Marx and Engels had issued in 1848, and bade me read, mark, learn, and inwardly digest it as the one true gospel. This I did—and reached conclusions other than those to which it had been intended to lead me. Yet I realized even then what Trotsky has since proclaimed, that the *Communist Manifesto* contains the whole of Marx. To it I shall presently return.

In those days Paris was a hotbed of ideas—social, philosophical, and political. Orthodox champions of economic individualism like Paul Leroy-Beaulieu and Radical free-traders like Yves Guyot were so good as to supply me with specifics against Socialist theory; and revolutionary Socialists of the Blanquist School, like Edouard Vaillant, insisted that Proudhon and Blanqui were much safer guides than the semi-metaphysical Germanic profundities of the Marxists could be. But Proudhon's assertion that "property is theft" stuck in my gorge, despite or because of its similarity to Marxist assertions. I could accept neither his reasoning nor that of the theoretical anarchists who also revolted against Marxist teachings; and when at last I resolved to write a study of the Labour and Socialist movement in Germany, France, and England, and returned

for a while to London to look into the English varieties of Socialism, I found that there was no greater degree of unanimity among British labour men and Socialists than there was in France. Still, I had the advantage of meeting prominent Trade Union leaders and such men as William Morris, John Burns, and Hyndman, to say nothing of Friedrich Engels, who had been a collaborator and philosophical mentor of Karl Marx.

With Engels I felt at home. Every principle he enunciated led straight back to the doctrines of the German philosopher Hegel, with whose portentous meanderings I had scraped acquaintance at Berlin University. Shall I say that then I was, as I still am, disposed to agree with Schopenhauer's wicked dictum that, nonsensical as were the works of many German philosophers, "the greatest of all German nonsense appeared in Hegel." Therefore when Engels used sundry Hegelian expressions I made bold to ask him what he thought they really meant. Never shall I forget his answer: "Knowledge of Hegel can only be acquired through lifelong study. I have been studying him for fifty years, and now, I believe, I have nearly mastered his vocabulary."

Of all the Marxist dogmas those which concerned the "class struggle" or "class warfare" and the need for "class consciousness" seemed to me the least acceptable. Their superficial plausibility, both historical and actual, was beyond question; but some-

how or other they did not respond to my own feelings of what could be done by public spirit and class co-operation. Here again, I felt, one was in danger of falling into artificial categories like those which had disfigured so many of the economic disquisitions I had read or heard, and of treating human beings as mere automata which would be certain to act in one way or another according to the presumptive balance of their economic advantage. The moral element, the principle of common devotion to an unselfish and therefore uneconomic ideal, appeared to me to be wholly absent from the Marxist evangel; and, after my return to Paris, I cultivated the society of the famous French Socialist leader, Jean Jaurès, whose philosophical training was at once broader and more human than that of Engels, and whose poetic insight led him to see more deeply into the nature of things social than any of his contemporaries.

One day Jaurès invited me to attend a public discussion which had been arranged between him and Paul Lafargue upon Marx's materialist philosophy of history. With great eloquence and passion Jaurès contended that while economic stress had, at various times, played a great part in historical changes, those changes had been prepared and carried through mainly by spiritual influences such as the conceptions of justice and freedom, which had, in different ways and degrees, inspired men to struggle for the realization of their ideals.

Lafargue replied by insisting upon the materialist view of history, and by claiming that idealism or religion had merely been a cloak for the realities of economic strife. In a phrase, which I have quoted elsewhere, he boasted that "Marx turned God out of history." Even in Paris the phrase fell flat, and Jaurès carried the audience against Lafargue. It is a curious commentary upon Lafargue's view that, when he and his wife felt the approach of age, they divided their fortune into so many amounts to be expended annually and, as soon as the last of these had been spent, they committed suicide. Jaurès remained a leader of French social and political thought, with growing influence and power, until, on the eve of the War, he fell a victim to the bullet of a reactionary fanatic.

\* \* \*

From the spring of 1896 onwards my work lay in other spheres than those of social study. It consisted in—mainly political—journalism as correspondent of *The Times* in Germany, Italy, and Austria-Hungary. Naturally this work brought me into contact with the social and industrial problems of those countries. In Germany I was able to observe the gradual transformation of the Social Democrats into a kind of democratic opposition party which had shed most if not all of its revolutionary aspirations. It became a respectable lower-middle-class organization with a considerable

sprinkling of Jewish and other "intellectuals" in its leading ranks. More remarkable were the heresies of the Bavarian leader, von Vollmar, and of the well-known writer, Dr. Eduard Bernstein, who did not scruple to dissociate themselves from orthodox Marxism. At the Frankfurt Social Democratic Conference in December 1894 I had listened for three days to an oratorical duel between August Bebel and von Vollmar upon the agrarian side of Marxist doctrine, a duel in which von Vollmar triumphed, for he knew the Bavarian peasants and was able to prove that Marx's agricultural theories were totally inapplicable to them, since Marx had drawn his notions from special circumstances which had existed in Northern Ireland. Dr. Bernstein, for his part, challenged even the industrial economics of Marx, and argued with much force that the general tendency of modern industry to crush the individuality of small enterprises, was accompanied, in Germany at least, by countervailing tendencies that were leading to the successful maintenance of individual undertakings.

Through these disputes and lapses from orthodoxy ran a strong current in the direction of "revisionism" rather than of social revolution. Its real though not its avowed purpose was to foster such social reforms as might be practicable without violent change in the structure of German society or of the State. To this extent it departed from the orthodox Marxist view of the proletarian class-

struggle against the possessing classes. Therefore my work in Germany during 1896 left me with the impression that German Social Democracy was fast becoming a middle-class or semi-middle-class party, and that the rapid growth and prosperity of German industry, together with the German State system of social insurance and Old Age Pensions, were making the Marxist notion of wage-slavery look a little thin, and were putting quite another complexion upon the German "social question."

In Italy, on the contrary, Socialism—which was, in the main, Marxist—bore a distinctly revolutionary character up to the end of the century. Then, partly in consequence of the severe penalties inflicted upon the Socialist leaders who had been implicated in the risings and riots of May 1898, Italian Socialism put some water in its blood-red wine and tended to become a party of constitutional opposition rather than a merely explosive element. In Austria-Hungary, where I was stationed from the end of 1902 until the summer of 1913, yet other conditions existed. There a Christian Social Anti-Semitic party was taking the wind out of the sails of Marxist, and largely Jewish, Socialism and was striving avowedly to defend "the small man," that is to say, the little shopkeeper and the craftsman, from being squeezed out of existence by the large Jewish stores and industrial organizations. But as regards "social peace," Austrian conditions were so affected by political and racial considerations that much caution



was needed in drawing general conclusions from them.

Of those conditions, during the first decade of this century, the earlier pages of Herr Hitler's book, *Mein Kampf*, contain a moving and, in some ways, an enlightening account, much of which has unfortunately been omitted from the English version. Especially striking is his analysis of the fear felt by members of the lower-middle-class lest they sink again into the working class from which they had recently emerged. Nor can I quarrel with Hitler's account of the Austrian trade unions, which seemed more anxious to impose Marxist orthodoxy upon trade unionists than to promote their economic welfare. This was a tendency noticeable in the trade unions of other countries also, a tendency alien to the original purpose of trade unionism. On the other hand, not a few Austrian employers, many of whom were Jews, behaved towards their workmen as though they wished to prove that Marxist denunciations of capitalism were right; and the Austrian Socialist leaders, most of whom were likewise Jews, were able to urge with some show of logic that only successful class-warfare could put an end to the abuses of the capitalist system and liquidate the legacies of the industrial revolution. Still, these same Socialists were so far from being violent revolutionaries in practice that they did not scruple to ally themselves with, or to become the tools of, the

Emperor Francis Joseph when that august monarch decided in 1906 to impose universal suffrage upon his Austrian peoples as a means of furthering dynastic designs. Thus they earned the nickname of "Imperial and Royal Socialists." So, here again, it seemed to be necessary to apply the principle of relativity to all manifestations of Austrian social and political life.

In some ways the Austrian Empire was not unlike England, or at any rate the England which Karl Marx had known when the worst effects of the industrial revolution revealed themselves about the middle of last century. Austrian industrial development began late and passed rapidly through stages which, in England, had lasted much longer. If there were no Robert Owen, no "Rochdale pioneers," and no "Peterloo" on the same scale as in England, there was the same departure from the ethics and the social standards of the patriarchal or feudal system, and, at first, the same attempt to apply to mechanical industry the principles of the "Manchester School." Free competition, *laissez-faire*, *laissez-aller*, were the watchwords of the Austrian German Liberals, who applied them in ways that justified the biting comment of the great Austrian essayist, Kürnberger, in the 'seventies of last century, that what was really meant by economic freedom was "the free fox in the free hen-roost," or "the free pike in the free carp pond." I do not know whether the Austrian textile industries were

ever disgraced by outrageous abuses such as those which caused the great Lord Shaftesbury, Charles Kingsley, and many other English social reformers to revolt. Doubtless there were at first the same sweating of child-labour and ruthless acceptance of the idea that human work is worth no more than a worker can be constrained by hunger to accept for it, and there may have been the same fierce unwillingness on the part of employers and of Governments to admit the right of wage-earners to organize themselves and to engage in collective bargaining. It is indeed probable that these English precedents had their counterparts in Austria. If so their duration was shorter, perhaps because the peculiar working of the group system in the Austrian Parliament, and the enlightened views of some Austrian officials and statesmen, corrected such abuses more swiftly than they had been corrected in England, and because the State itself undertook, at a comparatively early period, the defence of the working classes.

But in Austria also one Marxist contention was abundantly vindicated, as it had been in England—that changes in methods of production inevitably entail changes of social structure. In consequence of production by power-driven machinery there arose in Austria, as in England, an industrial middle-class claiming and wielding political influence and gradually coming to form, by its wealth and its interests, a notable element in the body-

social if not in the body-politic. With this class, which formed the bulk of what was known as the "Second Society," the Austrian upper class, or "First Society," gradually formed a working alliance even if all its members did not, as many of them actually did, engage in industry and business on a large scale. Socialism was their common enemy, and finance was often their meeting ground. Nowhere, in my experience, were the lines of the antagonism between the capitalist system and Socialism more clearly drawn than they were in Austria, and nowhere was the bearing of that antagonism upon the future of the social structure more apparent. And in this connection it is well to remember that Adolf Hitler, the present master of Germany, is an Austrian and a product of Austrian conditions. If he was influenced, on the one hand, by Austrian pan-Germanism, and on the other by Austrian Christian Social Anti-Semitism, his sufferings as a casual labourer in Vienna coloured his whole social outlook. The semi-Communist views which figure so largely in the German Nazi, or National Socialist, programme are anti-Socialist only in the sense that *similia similibus curantur*, or like is cured by like. The social conservatism, or capitalism, which rejoices over the suppression of Socialism, as a political force, by violent Fascist or Nazi methods should have a care lest it be casting out the devil with the help of Beelzebub. It may get shorter shrift from such forms of government

than it would have got from a professedly Socialist State.



Criticism of Marxist doctrine, both hostile and helpful, had long been vigorous in Austria. Schaeffle, the well-known author of *Quintessence of Socialism*, was for a time an Austrian Minister; and a Professor of Economics at Vienna University, Anton Menger, wrote a penetrating study called *The Right to the Whole Fruit of Labour* upon the Marxist doctrine of "surplus value." Since this doctrine supplies the key to the greater part of Marxist economic philosophy, and forms the warrant for the class warfare which figures so largely in it, it may be well briefly to state, at this point, what it is and how it bears upon the possibility of attaining social peace.

Without prejudice to a closer examination of the *Communist Manifesto* later on, and of the developments which have made of Russia a Marxist Empire and have recently turned Germany into an ostensibly anti-Marxist "Third Empire," it will suffice to say that, according to Marx, the economic order is the basis of all social order, and that the legal and political structures of society, as well as religion and philosophy, are explicable only in the light of economic conditions. All social or political change, he contended, is the result of antecedent economic change. From the fifteenth century onwards, the collapse or destruction of the medieval

guilds, and the revolution wrought by the Reformation, brought about the development of a capitalist class which created a corresponding proletariat on whose labour and misery it battered. This capitalist class grew, and grows, by keeping for itself all but a fraction of the value which labour gives to raw materials, the fraction going to the proletariat in the form of a wage barely sufficient to keep the producing wage-slaves alive. Though production is a social function, capitalists thus appropriate the whole surplus value of what is produced, after paying a starvation wage to the true producers. Capitalist wealth therefore has its origin in theft. As a result, capitalist society is strong and practically lawless, while the producing masses are organized in factories and are kept in effectual serfdom. This evil is intensified from time to time by the inability of the capitalist class to regulate production, as is shown by the great commercial crises which periodically spread distress. Not until the proletariat organizes itself, in its turn, becomes conscious of its position as a shamefully exploited class, conscious also of the reasons for its subjection to capitalism, seizes political power and declares all the means of production and distribution to be social property, will it be possible to improve the general lot of mankind. Then the State will die a natural death and the function of government will be simply the control of industrial processes.

This, in a nutshell, is the Marxist doctrine. Its denunciation of "wage slavery" is very important. Like most terms, or epithets, designed to prejudge a debatable point, the expression "wage slavery" needs precise definition. Orthodox economists of course reject it. Partisans of the "Manchester School," if there still be such, argue that a man is free to withhold his labour, just as an employer is free not to engage him, and that their business relations are, in fact, a contract freely entered into and terminable at notice. Socialists deny this freedom, and claim that since it must mean, in effect, merely freedom to starve for the individual seller of labour, the wage-bargain is not made between equals but is a capitulation dictated by the strong to the weaker. Hence the need for combination among workmen in the form of Trade Unions, so that collective bargaining, with the weapon of the strike in the background, may result in some equality of contractual conditions. With these arguments and counter-arguments I am not now directly concerned. Rather do I wish to draw attention to some considerations which flow from no less an authority upon "Politics" and "Economics" than Aristotle. During my intercourse with some of the most thoughtful of British Marxists I found that they, and especially the late Mr. H. M. Hyndman, were assiduous students of Aristotle and of his view that slavery was essential to the economic maintenance of a community of free political citizens. Hyndman

used to urge that, from the standpoint of social conservation, two of Aristotle's ideas needed to be taken carefully into account. One was that the worst fate which could befall a free community would be that its economic slaves should become its political masters; and the other was that, if machines could ever do the work of human slaves, the terms of the problem would be altered. Though I have never been able to identify in Aristotle's writings the precise passage in which machines are thus referred to, I have no doubt that Hyndman was right. But I could not altogether agree with him that, since the development of modern machinery had produced a state of things in which machines can do the work of proletarian wage-slaves, the essence of the social problem and the postulate of social peace are how to wrest the ownership and control of machinery from private capitalists and to vest them in the community. Still less could I agree that, since capitalism was unlikely to yield without a struggle, political revolution would probably be necessary for the economic enfranchisement of the masses. In order to hold this view one must believe in the fundamental soundness both of Marx's diagnosis of social and economic disease and of the revolutionary remedy which Marx prescribed.

It is plain that the validity of the Marxist diagnosis depends less upon the accuracy of Marx's views of economic history than upon the assertion



that all save a fraction of the surplus value which labour bestows upon raw materials is stolen by capitalists and applied to their own class purposes. Upon this question whole libraries have been written. With some of their contents I am familiar, though I do not propose now to discuss them. The overwhelming balance of competent opinion is that the Marxist theory is not valid, since it leaves out of account many factors that enter into the bestowal of superior value upon raw materials by processes of manufacture, and that it is, in fact, a dogma rather than a proposition susceptible of convincing proof. Yet it is undeniable that modern conditions of industrial production do raise, with increasing urgency, the question of the proper relationship between the human workers in a community and the ownership and control of its machines; and my general purpose is precisely to examine these conditions and to suggest a way in which a fairer and juster organization of economic society may be attained without political upheaval or violent change of social structure.

This is what I mean by "A Way to Social Peace." The way, as I see it, is practical and practicable, though not easy. It cannot be trodden without very different views of the meaning of human life and the purpose of civilization from those which either the supporters of the capitalist system or its fierce opponents are wont to cherish. It will be found to run counter to many current ideas, and to bring

men face to face with the issue whether their lives really consist in the abundance of the things they may possess. The way needs to be surveyed in retrospect as well as in prospect. From the devotees of the "historical method" in economics—of whom I may have said some hard things—I have learned at least that no contemporary economic or social phenomenon can be rightly judged save in historical perspective; and from Marx and others I have gathered that, however lofty men's aims may be, however powerful the influence upon them of the ideals of liberty and justice, material considerations do enter largely into their motives, and that those who ignore this fact are apt to spin mental cobwebs. Around and sometimes above the whole issue lies the care of nations for their own security, for their place in the world, and for the protection or assertion of what they look upon as their vital interests and rights. These interests and rights may clash with the interests and rights of other nations, and bring on conflicts of which, in the not distant past, the only solution was held to be war.

It will be necessary, too, at a later stage, to look carefully into the Marxist contention that international hostility will not cease until the class conflict has ceased within nations, for this contention goes to the root of many of our present preoccupations and anxieties. Had I not lived among peoples and moved in the society of statesmen and others who frankly thought of war as the best way out of

social and economic difficulties, I might have hesitated to take this Marxist contention as seriously as I have come to take it. In point of fact, my own search for social peace has been prompted by the urgent need of finding how to get rid of war and to create international peace. This it is that has led me, for some years past, to review the social problems in which I have long been interested and to look for more excellent ways of reconciling conflicting interests within communities than those suggested by Marxist Socialism, on the one hand, or by Fascism and Hitlerism, on the other. Is it merely accidental, or is there a relationship as of cause to effect, in the circumstance that those anti-Socialist systems which to-day arouse the admiration of unthinking champions of capitalism and of would-be preservers of the present social order are both marked by the intense military training of the young and by the inculcation upon them of the constant thought of war? Is this circumstance inseparable from those systems, or is it only accessory to their reaction against the doctrines of the class struggle and of the dictatorship of the proletariat?

At all events, it is noteworthy that Marxian Socialists and Communists should think and speak, as do their adversaries, in terms of the total suppression of individual freedom. Between these extremes there must surely be a saner course. If we cannot find it, posterity may well laugh us and our vaunted civilization to scorn.

## CHAPTER II

# COMMUNISM, FASCISM AND THE "TOTAL" STATE

IN looking for a saner path to social peace than those prescribed and followed by militant Communism on the one hand, and by Fascism and Nazism on the other, it is well to glance at the antecedents of these three systems and to ask what they may have in common. I have already alluded to the Communist assertion that the connection between social and international peace is real and intimate, and to the fact that both Italian Fascism and German Nazism make a point of giving intense military training to the young and of instilling into their minds the constant thought of war. Another fact is that Russian Bolshevism has suppressed—and that leading British partisans of a "dictatorship of the proletariat" think and speak of suppressing, as soon as they can—the political rights and liberties of individuals who do not share their views. Without Russian Bolshevism, Fascism and Nazism might never have arisen; and as Russian Bolshevism is the first attempt on a large scale to put Communist ideas into practice, it is important to understand Communist doctrine itself.

It is unquestionable that Fascism gained power in Italy, and Hitlerism or Nazism has gained it in

Germany, as a violent reaction against Socialist or Communist theory and practice, the violence taking much the same forms, for anti-Socialist and anti-Communist ends, as Bolshevist violence had taken in Russia for Communist ends. This similarity of method is the more remarkable because Russian Bolshevism adapted to its own purposes many features of the oppressive technique which Tsarist Russia had evolved. Does it follow that some such technique is indispensable to all forms of social and political constraint? And is there anything in the theory of the "total" State which, with sundry variations, is common to Bolshevism, Fascism, and Nazism alike, that points to a single origin? I think there may be.

If I am right, the single origin of Communism, Fascism, and Nazism is to be found in the political philosophy of Hegel. From it Karl Marx and Friedrich Engels certainly derived many of the notions which they expounded in their joint work on *Capital*, and never more clearly or succinctly than in their *Communist Manifesto* of 1848. If it be asked whether it is really necessary, or can be enlightening, now to trouble about what Marx and Engels wrote more than eighty-five years ago, the answer is not only that much of what they then wrote is living doctrine to-day but that some of the circumstances they described and of the ideas they set forth still affect, positively and negatively, a large part of the world and bear directly upon political and social prospects in this country. Some

time back I expressed a pious wish that Conservatives, or, for that matter, Liberals of all classes, would read the *Communist Manifesto* at least once a year, and said they would find it a formidable and terribly modern document. Here is its history.

In November 1847, a little more than eighty-six years ago, a Congress of the "Communist League" met in London. It instructed Marx and Engels, who took part in it, to work out and to publish, in the form of a manifesto, the theoretical and practical programme of the Communist Party. They wrote the manifesto in German during January 1848, and had it printed in London shortly before revolutions broke out in Germany and other parts of the Continent towards the end of February. The first English translation was published in the *Red Republican*, the organ of the Chartist leader, Julian Harney. A French translation appeared in Paris on the eve of the insurrectionary movement there in June 1848, but all traces of this translation were afterwards lost. Therefore the manifesto was again translated into French by Laura Lafargue, a daughter of Karl Marx, whose work was revised and corrected by Friedrich Engels himself; and she it was who gave me a copy of it in 1894. In terse summary it runs:—

The history of society has been solely the history of class struggle. Free men and slaves, patricians and plebeians, barons and serfs, oppressors and oppressed, have carried on, in constant antagonism, a ceaseless war which has always

ended either by a revolutionary transformation of the whole of society or by the destruction of the two classes which engaged in the strife.

Modern middle-class society, arising on the ruins of feudal society, merely replaced the old antagonisms by new oppression, new forms of struggle. Yet the distinguishing characteristic of our time is that class antagonisms have been simplified. Society is dividing itself more and more into two vast enemy camps—the middle class and the proletariat.

From the serfs of the Middle Ages arose the early urban communities; and out of this urban population came the constructive elements of the middle class. The discovery of America and the circumnavigation of Africa opened new fields of action to this class which became a revolutionary element in a decaying feudal society. The markets of India and China, the colonization of America, colonial trade, the increase of merchandise and of the means of exchange, gave an unprecedented impulse to commerce, shipping, and industry, and thus assured the rapid development of the merchant and industrial middle class.

Then the old ways of production no longer sufficed for the new needs. The old guilds of craftsmen, surrounded by feudal privileges, gave way to factories. A lower industrial middle class supplanted the jurymen of the guilds; and the division of labour between the various guilds gave place to the division of labour in the industrial workshop.

As markets continued to extend, the means of supplying them had likewise to be extended. Thus production was revolutionized by machinery and by the advent of steam power. Modern machine industry began to replace labour by hand. The lower industrial middle class was ousted by industrial millionaires, captains of labouring armies, and the modern middle class arose.

Side by side with these changes went the development of means of communication. Steamboats plied the seas and railways spanned the earth. The middle class, greatly enriched, drove into the background all that remained of the medieval strata of society.

Every stage of this evolution was accompanied by a corresponding political change until the industrial and trading middle class conquered political power by the modern representative system. Indeed, modern government is nothing but a managing committee of middle-class interests.

Thus the middle class played an essentially revolutionary part in the history of society, crushing beneath its feet the old patriarchal and feudal relationships, which they smashed pitilessly, and leaving only money as a frigid bond between man and man. Religious ecstasy, knightly enthusiasm, and popular sentimentality the middle class drowned in the icy waters of its own selfishness. It prized human dignity solely for its exchange value, and put in the place of the manifold liberties, which men had formerly enjoyed, a single and pitiless freedom of trade.

Now this middle class can only exist on condition that the instruments and methods of production, and hence social relationships, are constantly changed. The classes which preceded it depended upon the conservation of ancient methods of production; but the middle class changed them, and must go on changing them. Urged by the need for new markets, it invaded the whole globe, creating new means of communication, giving a cosmopolitan character to production and consumption, destroying the national basis of industry, stimulating fresh wants, and making nations interdependent, not only materially but intellectually also. The middle class subjected the country districts to the towns, increasing the urban at the cost of the rural population,



bring the work of others into subjection to him. Abolish the exploitation of man by man and you abolish the exploitation of one nation by another. The development of the middle class tended to blur the lines of cleavage between nations, and the advent of the proletariat will obliterate them far more rapidly. Common action by the various proletariates in civilized countries is one of the first conditions for their emancipation. And when the antagonism of classes within nations shall have disappeared, the hostility of one nation towards another will likewise disappear. Communism is working for union and understanding between the democratic parties of all countries. Its aims cannot be attained without the violent overthrow of the existing social order. Proletarians have nothing save their chains to lose. They have a whole world to gain. Proletarians of all lands, unite!

\* \* \*

This document, in which historical and economic truths jostle half-truths and some untruths, sounds like a Socialist or Communist, or, indeed, a Hitlerite, indictment of capitalist society to-day. It was written at a time when the industrial development of England was still far from the point it has since reached, and when the industrial systems of other countries, including the United States of America, were almost rudimentary. Yet it cannot be said that the course of industry and trade, national or international, has deprived the *Communist Manifesto* of its sting. Even if its opening assertion that "the history of society has been solely the history of

class struggle" be open to question, who can deny that methods of production were radically changed by the advent of power-driven machinery, that this machinery has replaced craftsmanship and skilled labour in a remarkable degree, that international trade and finance have rendered nations interdependent, and that "every stage of this evolution was accompanied by a corresponding political change until the industrial and trading middle-class conquered political power by the modern representative system"? There were certainly moments in British history during the nineteenth century when representative government was little more than a managing committee of middle-class interests; and it is true that the rise of the industrial middle class revolutionized society and tended to substitute for the old patriarchal and feudal relationships, which did not lack humane quality, a cold "cash nexus" between man and man. It may also be true that under a system of free competition the industrial middle class is bound continually to change methods of production and, consequently, to bring about further changes in social relationships. Nor can it be doubted that the depopulation of country districts and the absorption of so large a percentage of their inhabitants by towns and cities have altered the terms both of the political and of the social problem. And can it be gainsaid that the industrial and economic anarchy incidental to industrial competition has again and again led

to over-production and, through it, to unemployment and misery which translated themselves into under-consumption? Even to-day industrial producers in many countries are suffering from over-production of goods and foodstuffs, while would-be consumers in these and other countries are suffering, still more acutely, from want and hunger due to under-consumption.

It is indubitable, moreover, that in many industries the workman has become a mere accessory of the machine, and that the growth of huge trusts and combines has driven a part of the lower middle class into the ranks of the proletariat. Railways, which the *Communist Manifesto* cites as means of communication which enabled the working class to reach a degree of unity it might not otherwise have reached for centuries, have, in the past eighty-five years, been supplemented by telegraphs, telephones, wireless, motor-cars, and aeroplanes. The figures of unemployment in Great Britain, the United States, and elsewhere do not make it altogether easy to refute the charge that capitalist industry has fostered unemployment and failed to give large numbers of workers the means of keeping body and soul together—for the Communist indictment is not answered by urging that forms of State Socialism, like unemployment insurance and benefit, have helped to mitigate the lot of the workless.

\* \* \*

These things may be frankly admitted. Not less frankly must any fair-minded student of modern industrial history confess that many of the improvements which have been brought about in the position of wage-earners were inspired less by a sense of justice or humanity on the part of employers than by respect for the strength of combinations of workmen, in the form of Trade Unions, and by fear of coercion through strikes or threat of strikes. To this extent the class struggle has been, and is, real. Idle, too, would it be to overlook the stiff-necked resistance which the industrial middle class and the aristocracy offered, in Parliament and elsewhere, to any legal recognition of the right of wage-earners to combine for the purpose of collective bargaining with employers. It is enough to read even the first volume of Mr. and Mrs. Sidney Webb's *History of Trade Unionism* to be convinced that, without a determined struggle on the part of wage-earners against their employers, this right would hardly have been granted. As early as the end of the eighteenth century the new machine industries in England began to force down wages and to substitute for adult male labour a cheaper female and child labour which gradually reduced adult male labour to a condition of miserable poverty. The reports of Parliamentary Committees, from 1800 onwards, contain a dreary record of this progressive lowering of the standard of life, especially among workers in the textile industries. As Francis

Place wrote of this period: "The sufferings of persons employed in the cotton manufacture were beyond credibility: they were drawn into combinations, betrayed, prosecuted, convicted, sentenced, and monstrously severe penalties inflicted upon them; they were reduced to and kept in the most wretched state of existence." The employers were often men who had merely invested money in the factories and, devoting all their time and thought to the commercial side of the business, left their managers to buy labour in the market at the cheapest possible rate.

Under these conditions it was natural that wage-earners should seek to combine against exploitation so shameless and that, during this period of tyranny and repression, a sense of solidarity should grow strong among them. It may be an open question whether even this solidarity would, by itself, have won recognition of the wage-earners' right to combine, had not middle-class humanitarians like Mr. Frederic Harrison stood by them, helped them to fight their battles, and roused the feeling of the country in their favour.

The fight was long and fierce. It was not until 1871 that the main battle was won and Trade Unions were, for the first time, recognized as legal and legally protected associations. A letter written by so eminent a Liberal as Mr. John Bright to a Blackburn millowner in November 1860 shows how strong the resistance had been. In this letter he

assured the working man that "combinations, in the long run, must be as injurious to himself as to the employer against whom he is contending." And in 1869 the great Lord Shaftesbury, who was a life-long advocate of factory legislation for the protection of wage-earners, prayed that "the working people may be emancipated from the tightest thralldom they have ever yet endured. All the single despots, and all the aristocracies that ever were or ever will be," he declared, "are puffs of wind as compared with these tornadoes, the Trade Unions." True though it be that Trade Unions have been and are tyrannical, it is not less true that the rigid discipline they imposed upon their members and the uncompromising spirit they often displayed were the direct result of the hardships inflicted upon the wage-earning class by capitalists who looked upon human labour as merely one of the raw materials of industry.

On the other hand, it is a fair criticism of Trade Unions to say that they, too, accepted this low valuation of human labour, and did not take the higher ground that, precisely because it is human, the labour of men possesses an ethical right inherently superior to that of money and of the machinery which money can buy. They accepted the idea of a "labour market," and thought mainly of keeping up the "market price" of labour. In so doing the Trade Unions, like the employers, adopted the fundamental assumption of political

economy, an assumption that vitiates so much economic thought, that men live by bread alone and that human life has no special value merely because it happens to be human. Marx's materialistic interpretation of history can be abundantly justified by many a passage from the orthodox economists. Indeed, within the last few years a prominent iron-master who thought himself a Liberal, the late Sir Hugh Bell, did not scruple to say, in a letter to *The Times*, that the only concern of a buyer of labour is the price it will fetch in the market, and that the question whether the seller of labour can live upon what he gets for it does not come into consideration.

\* \* \*

Thus it is not surprising that, against such doctrines, militant Communism and various forms of Socialism should have spread, or that their devotees should have concluded that only by the overthrow of middle-class capitalist society and the nationalization, or socialization, of all the means of production and distribution could the position of wage-earners be radically improved. If, for their own reasons, and in order to increase their own power in Parliament, middle-class politicians extended the franchise until universal suffrage was attained, the wage-earners and their helpers would have been less than shrewd and more than human had they not sought to use this circumstance, and their numerical superiority, to promote their own

political and economic interests. And there was no obvious reason why their ethical standards should be higher than those of the class which, as a whole, they felt was exploiting them and would exploit them still more if it could.

If there were nothing more to be said on the ethical side of the matter, it might be admitted forthwith that the doctrines of the *Communist Manifesto* are uncomfortably sound, and that, both in themselves and as they are developed in the larger and better known work by Marx and Engels on *Capital*, they are not far from being the last word on the subject. But in practice there have been, especially in this country, so many exceptions to the rule of the class struggle that it seems fair to ask whether the rule itself holds good even as a general principle. The wage-earning classes might never have succeeded in making so much headway during the nineteenth century had they not been supported by moral and religious influences that extended far beyond their own ranks. It was the widespread feeling that the behaviour of many, though by no means all, employers of labour was unjust and unrighteous that led not a few members of the middle class to work for the legal and political emancipation of wage-earners; and this feeling was certainly not least among the influences that compelled Governments to admit the principle of employers' liability, to regulate hours of work, and to carry factory legislation against the sweating of



child and female labour. To attribute these reforms solely to the pressure of organized labour is historically and morally false. The very ideals of justice and liberty which Marx excludes from his materialist interpretation of history, the very religious beliefs which he denounced as "opium for the people," worked potently on behalf of the "proletarians" into whom Marx, Engels, and their disciples strove to instil the notion that only by the violent conquest of political power and the destruction of the middle class could the workers conquer freedom.

Nor should it be forgotten that these religious and moral feelings were strong among the wage-earners themselves, and formed a bond between them and many of their employers. Marx, who was of middle-class German-Jewish extraction, and Engels, a German whose father had made a considerable fortune in the Manchester cotton trade, were incapable of understanding these feelings. Just as little did the French Marxist leader, Jules Guesde, understand them. Guesde was quite sincere in his profession of materialist atheism, though he believed in the Gospel according to St. Marx with a fervour akin to that of an Islamic zealot. He believed, too, in the Social Revolution as the only means of salvation; and it was he who first organized international labour demonstrations on May Day in order to give Socialist and Labour organizations throughout the world an opportunity publicly to attest their faith.

One day, early in 1894, I called upon Guesde at his little house near Paris. I found him half-indignant and half-amused. He had just returned from a Congress of the British Independent Labour Party at Newcastle, to which Mr. Keir Hardie had invited him. "You will never have a revolution in England," he exclaimed contemptuously. "It is impossible. I went to Keir Hardie's Congress, or, rather, prayer meeting. It opened with prayer!—with prayer! do you understand? Then what do you think they made me do? They made *me—me*, Jules Guesde, an atheist—sing hymns, and they sang them as the men in the French Revolution must have sung the *Marseillaise*! What a people! What a people! You will never get a revolution."

I laughed heartily at Guesde's discomfiture, and suggested that there might be more things in Heaven and Earth than were dreamt of in his philosophy. To me there was something intensely comic in the fact that this long-haired, eagle-eyed French revolutionary Marxist should have been made to sing English hymns. Even if we should never "get a revolution" in England, I told him that the moral fervour of men like Keir Hardie and his comrades would awaken sympathies among their fellow countrymen that might lead, without revolution, to improvements in the position of the working class which French and German Socialists, with their abstract revolutionary ideas, would hardly get save through violence—if at all. He denounced

this possibility as a mere palliative, if, indeed, it were not a deliberate and hypocritical dragging of a religious red-herring across the scent of the proletarian hunt which was hotly pursuing its capitalist quarry.

Since then, I admit, the "continentalization" of the British Socialist and Labour movement has proceeded apace. Ideas drawn from the Marxist stock have spread, not perhaps to the lasting benefit of the Labour movement itself or to the improvement of prospects of social peace. Yet there may still be time, and room, for influences similar to those which originally helped to secure the removal of social and industrial injustices—because those injustices were felt to be morally wrong—to come once again to the rescue of a cause that seems to be in some danger of going lamentably astray.



The search for social peace is a quest at once economic and ethical. My quarrel with the so-called ethics of Marxist Communism, as with those of Fascism and Hitlerism, is that they are essentially non-ethical. I do not overlook the power of their appeal to some of the strongest human impulses or passions, nor do I deny that, within limits, such appeals may be warranted or even laudable. The stimulation of men's pride in themselves and of their sense of human dignity is not in itself a bad thing. In the case of Russian Bolshevism it would,

for instance, be foolish to overlook the verdict of so competent an observer and critic as Professor Karlgren of Copenhagen University in his work, *Bolshevist Russia*, which was published some years ago.<sup>1</sup> He wrote:—

What has Bolshevism really given to the Russian proletariat? Something it must evidently be, or else it could not be still existing now. And something quite significant, too, seeing that, in any case, practically quite large numbers of the Russian proletariat are attached to it, not only from compulsion but from devotion, and even with an enthusiasm bordering on fanaticism. . . . The first gain that certain sections of the proletariat, at least, have won in the course of these years is this: a certain sense of power—a pious, unreasoning, invincible belief that the dictatorship of the proletariat really means a complete change in their position. . . . It is all an illusion, of that there is not the slightest doubt. But even illusions have their value. As regards the artisan class, it is plain what this illusion during the past few years has meant for them. The whole type of Russian workman has undergone a metamorphosis; since the revolution he has perceptibly straightened his back and raised his head; the crouching trait in his character and his brow-beaten manner—an inheritance from the time of serfdom—have disappeared: he has acquired a greater feeling of human dignity, a feeling which certainly may at times swell beyond its true proportions, but which, taken as a whole, is all to the good. . . . The illusion which, in this way, has managed to add an inch to the working man's spiritual growth still holds him firmly under its spell, and

<sup>1</sup> George Allen & Unwin, Ltd.

in some degree has helped to reconcile him to his rôle of dumb supernumerary.

It is important to note that this "gain" to the Russian industrial proletariat under the Bolshevist State or absolute dictatorship has been psychological rather than material. It has given "status" and, as Professor Karlgren says, "a greater feeling of human dignity." In Italy, on the other hand, this sense of "status," this greater feeling of dignity, has been imparted by fierce appeals to national and racial vanity; and, in Germany at least, by fostering a belief that Germans are the special representatives of a Nordic "Aryan" race which, in virtue of its inborn superiority, is entitled to rule over the rest of mankind. As Herr Friedrich Sieburg says in his recent book, *Germany—My Country*,<sup>1</sup> "There are to be no more mere human beings in Germany, but only Germans." There are to be "no more private Germans; each is to attain significance only by his service to the State, and to find complete self-fulfilment in this service." For the rights, freedom, and dignity of individuals, as individuals, there is no thought or respect. In Germany, as in Italy, all human rights are to be derived from the State and from the State alone, whose behests, or rather those of the "Duce" or "Leader" in whom the State is embodied, all citizens, including all workmen, are unquestioningly to obey.

<sup>1</sup> Jonathan Cape.

These things move me to wonder whether such regimentation is or can properly be called "civilization." In my eyes civilization has no meaning unless it imply an improvement in the quality of individual human lives according to moral or ethical standards freely accepted by individuals as governing their relations with each other. Human personalities are, I take it, the subject-matter of civilization; not a mankind compressed and fashioned by a sort of mass-process in an omnipotent State-machine, but a mankind of free citizens enjoying rights and discharging duties in virtue of their free citizenship. I admit that, if this conception of civilization be wrong, all my notions of human progress are likewise wrong. From time to time changes of circumstance may necessitate some readjustment in the relations of citizens to each other. These readjustments should, however, be less difficult precisely in proportion as individual citizens are self-reliant, thinking beings who, taking the new circumstances into account, have the resilience and the vigour to adapt themselves and their social forms to them. Surely it is a sign of weakness rather than of strength in any civilized community that, to bring about effective readjustment, methods of barbarism—violent constraint, beatings, killings, torturings, and terror of all kinds—should be thought necessary.

This is why—again on the assumption that my reasoning is not wrong—I look upon forcible sup-

pressions of individual freedom in Russia, Italy, and Germany as evidence of some inherent weakness in the civilization of those countries; and far from regarding their methods as worthy of imitation, or admiring the apparent efficiency which those methods may for a moment ensure, I think that the people of this country, and, to some extent, the peoples of other countries which still cling to the ideals of liberal civilization, may be able to adjust themselves and their social arrangements to changes of circumstance without the brutality which has characterized and characterizes all the systems derived from Marxist principles or from reactions against them. Positively and negatively the principles of Marx and Engels, and the materialist philosophy that surrounds them, are the dominating influences in the Bolshevist, Fascist, and Hitlerite systems alike. It seems to follow that if those principles and that philosophy are, in any important respect, ill-conceived, attempts to apply them, or mere reactions against them, are, in their turn, likely also to be wide of the mark.

There is such a thing as coming so near to the truth as to miss it by a hair's breadth, and, having missed it, to follow a path of error of which it is the harder to perceive the wrongness because the path itself seems to be broad and even. Marxist philosophy appears to me thus to have missed the truth; and not only it, but the philosophy of syndicalism which the French writer, Georges Sorel, and



other apostles of "direct action" drew from Marx, Engels, and their prophet the German philosopher Hegel. And the original source of this error is to be found, I think, in Hegel's deification of the State, which he regarded as the only true moral entity, the only total embodiment of the moral idea, of the moral spirit which, in his view, controls and commands the minds and the deeds of all individuals comprised in the State. Thus, according to Hegel, the autocratic, self-sufficing State holds a monopoly of morality. There is no individual right, nothing separate, but all individual wills are totally absorbed in the will of the State.

Now, if words have any meaning, this conception of the State is not only an utter negation of morality but a contradiction in terms. The autocratic or, to use Signor Mussolini's expression, the "monolithic" State is responsible to itself alone. It may do well or ill, but it cannot act morally since it takes no account of its obligations towards others, and these obligations are the very essence of morality. The terms "moral" and "social" are philosophically interchangeable. There is no such thing as a community or a society of one. The Latin word "mores," or manners and customs, signifies social ways of behaviour; and at the root of these social ways there is generally some idea of social duty, or of what is best for or least harmful to others. Quite apart from any transcendental or supernatural sanctions with which religious creeds may reinforce



moral principles, the moral law is compounded of various degrees of individual unselfishness, that is to say of various derogations from, or surrenders of, individual sovereignty. The man who is a law unto himself is not a social or, strictly speaking, a moral creature. A moral law implies that individual members of a community which observes it give up their right to behave according to their own sweet or bitter wills, and admit that their own individual sovereignties shall, within the limits of the moral law, be subordinate to the will and the welfare of the community. But the notion of an omnipotent, all-embracing, or, to use the Italian Fascist and German Hitlerite expression, "totalitarian" State is an affirmation of absolute sovereignty, a negation of individual wills, and the reduction of their rights to the sole right and duty of obedience. And this is where the Marxist idea of the absolute dictatorship of the proletariat over all other classes, and the Italian Fascist and Hitlerite ideas of the total and absolute State, miss the truth so woefully that their final triumph would mark the end of free and liberal civilization which, in my view, is the only civilization worthy of the name.<sup>1</sup>

\* \* \*

<sup>1</sup> Since I wrote this brief analysis and criticism of the Hegelian doctrine of the State my attention has been drawn to Professor L. T. Hobhouse's work upon *The Metaphysical Theory of the State*, which was published in 1918 by Messrs. George Allen & Unwin. I am ashamed to say that this admirable study of Hegelian fallacies was unknown to me.

How, it may be asked, does this philosophical hair-splitting bear upon social peace? If, in a community, everybody, including all classes of workers, must submit to the rule of an omnipotent and infallible State, embodied in one leader or dictator, does not that community thereby attain social peace? What is there to complain of?

There is this to complain of. No social peace is sound unless it be at once lasting and progressive. If it be fleeting it is no true peace. If it be not progressive it may be the peace of petrification or death. The trouble with dictatorial forms of social discipline is that no dictator or dictatorial State has ever yet discovered the secret of eternal life, and the difficulty of replacing him or it is usually so great that chaos and disorder ensue. Hegel says that the total State is best embodied in a person, as in a monarch. Now infallibility is not a human quality. The experience of centuries, in this and other countries, has shown that some form of control over autocrats is, in the long run, indispensable to social safety; and that though this control, whether exercised by councils, parliaments, or otherwise, may be attended by a loss of efficiency, such loss is a sort

Otherwise I might have been saved the trouble of going back to Hegel's own argument, and might have drawn from Professor Hobhouse a more telling indictment of what I have long thought to be the fundamental error of Hegel's political philosophy. But as nothing in Professor Hobhouse's pages appears to invalidate the conclusions I had reached independently, I let them stand as they were written, and suggest that readers who may care to pursue the inquiry farther should consult Professor Hobhouse's enlightening work.

of insurance premium which the community pays against the risk of catastrophe.

The Bolshevist, Fascist, and Hitlerite forms of dictatorial government have all sprung, in various ways, from the application of Marxist and other versions of Hegelian ideas to social and economic conditions. Hence the Marxist doctrine that proletarian wage-slaves must overthrow capitalist society, abolish private ownership of the means of production and distribution, and secure dictatorial power in a Communist State. Hence, too, the Fascist and Hitlerite efforts to prevent proletarian dictatorship by a kind of armed gangsterdom, and to curb capitalism itself through a totalitarian State organized, as Hegel suggested it should be, on the basis of industrial and professional corporations or guilds. From the standpoint of the rights of individuals in a free community, all these attempts to escape from capitalist or proletarian absolutism appear as so many jumpings out of the frying pan into the fire, or, to vary the metaphor, so as many plungings into the sea in order to get out of the rain. Is it not time to ask whether there is anything so incurably wrong with private ownership and control of mechanized industrial production as to justify men in discarding the political and social liberties which their fathers won by pertinacious struggle and held to be beyond price?

The evils of mechanized capitalist industry are undeniable, but it is not certain that these evils are

COMMUNISM, FASCISM AND "TOTAL" STATE 69  
inseparable from private ownership and control of machinery. Rightly stated, the question may be whether the community can become the master of its machines without the total sacrifice of individual freedom; and in the answer to this question lies, I think, the key to social peace.

## CHAPTER III

# MEN AND MACHINES

IN our industrial and political life two tendencies have run side by side for the past century at least. The first has been the tendency towards the substitution of power-driven machinery for human labour, and the other the tendency to extend the Parliamentary franchise, irrespective of party allegiance, to all classes of adult citizens; that is to say, to bestow full political citizenship upon them. It is only since the advent of Bolshevism in Russia, of Fascism in Italy, and, to some extent, of Hitlerism in Germany, that effective political citizenship has been restricted to the members of one party; and these restrictions are so recent that they cannot yet be taken as having definitely altered the general trend of events.

Without accepting entirely the Communist view which, in this respect, is broadly accurate, we may recognize that the development of machinery has undoubtedly gone some way to render human labour merely accessory to the work done by machines, and has thus deprived human labour of no little of its craftsmanship and dignity. In many cases it has robbed workers by hand of something which so penetrating a thinker as Dr. L. P. Jacks holds to be their fundamental right—the right to

acquire and to exercise the skill that is a craftsman's patent of nobility. It stands to reason that, under present conditions, the gradual and constant decrease in the need for skill on the part of industrial workers must end by degrading a high proportion of these workers to the status of an unskilled mass and therefore by increasing competition among individuals in that mass for the chance of earning a livelihood. Hence, in the absence of a remedy, unskilled hand workers would seem to be condemned to suffer from wage-cutting and penury.

From the standpoint of those machine-owning employers who may look upon themselves as mere buyers of labour at the cheapest price in the open market, it would obviously be an advantage if machines could be made so perfect, and so automatic in their operation, that a few unskilled men, the fewer the better, could tend or watch over them quite as well as highly paid skilled men had formerly done. Thus, by rendering superfluous the acquisition of skill on the part of the majority of wage-earners, perfect machines would depress the labour market itself and lessen the costs of industrial production.

Fantastic though such a view may seem, I am not sure that it is not held by some narrow-minded and short-sighted employers in this and other countries. Even if the supervision of complicated and delicate machinery does still call for high grades of skill, it is none the less true that the course of industrial development has run, and is running,

in the direction of making larger and larger numbers of human workers dependent for their livelihood upon relatively unskilled labour, and of reducing the degree of their economic independence by converting them, as it were, into "spare parts" of the general industrial mechanism, fit and ready to replace the original "part" should it wear out or break down. Thus human labour is being enslaved by machinery in a sense that could hardly have been imagined when power-driven machine industry began.

Yet these very workmen, deprived of craftsmanship, and therefore of artistic personality, have been given an increasing degree of political citizenship and individuality by repeated extensions of the franchise—and not only they, but their wives and adult sons and daughters—without any of the economic qualifications which were insisted upon as indispensable to political citizenship at the time when some "stake in the country" was held to be desirable as a safeguard of social and political stability. As a consequence, and speaking in very general terms, the political control of the community has passed, potentially at least, more and more out of the hands of its economically independent members into those of the economically dependent—a condition of things which would have made Aristotle shudder. The danger that the economically unfree may become the political masters of the community, and of what we call

"the State," seems therefore to be real. Still graver is the danger lest the class of the economically unfree, using their numerical superiority in accordance with principles of Marxist Socialism, may attempt to become the State itself, and to establish their dictatorship over all other classes. If, as I have sought to show, the principles of dictatorship, proletarian or other, are philosophically unsound and incompatible with true morality, the peril to social peace and to free civilization may be grievous indeed.

\*   \*   \*

Not very long ago I was discussing the effects of mechanization in industry and the loss of human craftsmanship with a large employer of labour who, in his younger days, had "gone through the mill" from bottom to top as a mechanical engineer. "What worries me most," he said, "is the appalling monotony of modern machine-tending. When I was a young fellow a turner would be given a few bars of forged steel to trim into piston or driving shafts on his lathe. In those days lathes were apt to be capricious, and a skilled turner had to use his tools with much the same dexterity as a first-class violinist uses his bow. It was a man's job and, what is more, an artist's job. When he had produced a perfect shaft he was entitled to be proud of himself, and the works to be proud of him. Now the same turner, or his successor, will get twice or thrice as



many bars of forged steel. All he has to do is to put them on to a machine-lathe which does the rest automatically. He has only to stand by and watch. If anything goes wrong with the lathe he must not try to put it right. He has to call a fitter whose special job it is. Sometimes the lathe itself rings a bell to announce that all is not well with it. How can a man find satisfaction in such a life? The monotony, the soullessness, of it is frightful."

Another story, with a similar point, is told of a workman who had worked for Mr. Henry Ford at Detroit. The pay was high, fifteen or sixteen dollars a day, yet the man gave it up and sought work elsewhere. The employer to whom he next applied asked him where he had been and how much he had earned. The man told him. "You won't get fifteen dollars a day here," said the new employer; "you'll get six at most." "I'll take six," said the man; and the new employer asked why. "For years at Detroit I have been placing screw No. 13," said the man, "and I felt that if I went on much longer I should go mad."

\* \* \*

Those who are familiar with the late Samuel Butler's *Erewhon* and with H. G. Wells's *Time Machine* will remember how these two gifted writers dealt with the problem of machinery. The "Erewhonians" revolted against machines, smashed them up, put the remnants of them into museums,

and forbade any attempt to restore them on pain of severe punishment. Mr. H. G. Wells, visiting the distant future in his *Time Machine*, found one class of the population living in slothful yet panic-stricken ease above ground, while the slaves of their machines lived in a sort of underground hell and were always plotting to destroy their indolent and enervated masters.

A parallel to the gloomy vision of Mr. Wells, rather than to the satirical inversion of English nineteenth-century conditions by Samuel Butler, is to be found in a little-known American story written, I believe, by O. Henry, though not included in the English edition of his collected works. It is an imaginative tale of industrial conditions in the United States a century hence. A workman, wounded and worn out, managed to escape by the skin of his teeth across the Canadian border from the American industrial police who were "after him." He related that his crime had been to stir up discontent among his fellow workmen by saying that his grandfather had told him of a Golden Age when workmen were allowed to read and write, to live in houses or dwellings of their own, to send their children to school, to do what they liked with their earnings, and generally to live a free life. What he had said stirred up so much ill-feeling among the workmen against their employers that the employers' police sought the culprit's life, and he could only save himself by speedy flight. American

industrialists, said the tracked and wounded man, had discovered, early in the twentieth century, that workmen needed to know only just enough to enable them to tend machines, and that any other education was at once economically wasteful and dangerous, inasmuch as it put unsuitable ideas into workmen's heads. So workmen were forbidden to send their children to school, and it was made a felony to teach them to read or write. Workmen and their families were housed in huge industrial barracks, were fed by the masters like the inmates of a prison, and were "kept in their places" by rigid discipline and sharp punishment for insubordination.

\* \* \*

There would be no sense in satire such as this if industrial conditions in a machine-age had shown no signs of moving in some such direction; and anyone who has seen conditions in some American industries, and remembers what went on in a strike at Pittsburg towards the end of last century, can see the point of O. Henry's story. Like Mr. H. G. Wells's *Time Machine*, it was meant to show that industrial capitalism, with its absolute command of machine-power, may be destructive of individual freedom and of the quality of human life unless its autocratic tendencies be curbed. While heeding the warnings of these gifted men we need not accept them as prophetic, or despair of finding some way of reconciling "capital" and "labour" if not of

harmonizing their respective interests and merging them in the general interest of the community.

What do we really mean by "capital" and what by "labour"? Capital, as Marx and Engels insisted, is certainly a social product, though quite as certainly it is not created by manual labour alone, or even by capitalistic appropriation of the "surplus value" which labour is supposed to bestow upon raw materials. An exhaustive analysis of the nature of capital would need volumes as bulky as those of Marx and Engels, for it would have to deal not only with liquid capital, in various forms of cash and credit, and with the land, real estate, mineral resources, and the subsoil generally, but also with air, light, water, climate, and physical, mental, and moral aptitudes. It will therefore be well to consider chiefly the capital, or wealth in form of money, that is invested in industrial production and serves at once to build factories, buy and install plant, purchase raw materials, pay wages, and distribute and market the goods produced. Nowadays such capital is usually administered by limited liability companies, and is subscribed by a group of private capitalists or, more often, by the investing public in general. The object of this capital is to earn profits which may be divided among shareholders in the form of dividends. Over the use to which this capital is actually put the control of shareholders may be slight. Effective control is vested in a Board of Directors whose members work through managers

and administrative staffs. When things go wrong there may be trouble at an annual meeting of shareholders and, in the case of disaster, there may be a sort of *post mortem* examination upon the enterprise. Broadly speaking, the capital employed in industry is apt to be an impersonal and sometimes non-humane agency upon which the welfare of millions of workmen and other employees depends.

In this sense capital may be indispensable to those employees or wage-earners, since their livelihood depends upon it. Yet without the employees and wage-earners capital itself would be powerless; and the social problem is how to adjust the relationship between those who serve capital by labour of hand or brain and those who own the capital itself. Shareholding and other capitalists certainly own or hire the buildings of factories, the land on which they are built, the plant installed in them, and all the non-human elements of industrial production. How far do they own or hire, in the same degree, the human beings they employ to fructify their capital?

To ask this is to touch the fringe of an intricate ethical and social problem, a problem so intricate that dogmatism in regard to it is misplaced. Is it true that buyers of labour merely buy an element of production like any other non-human element? If not, if they admit that, because human labour is intrinsically different from and superior to raw materials or fuel or motive power, to what extent

are they bound to put care for this human element above the economic soundness and profit-earning capacity of their undertaking? And how should such care be taken? Human labour is not always an obedient or a tractable or even a calculable factor in production. Its behaviour may be affected by ideas, and ideas sometimes work out in ways that puzzle philanthropists. An illustration, taken from recent industrial experience, will serve to show what I mean.

One of the most praiseworthy social reforms in this country was the introduction of industrial health insurance. It was intended to check the incidence of sickness among the employed, to provide proper care and medical attendance for them and thus to improve their lot and, at the same time, to benefit the community at large. Nobody seems to have foreseen that an indirect effect of this reform would be to cause a loss of many millions of working weeks per annum, and thus to handicap the community as a competitor in world-trade. Yet, by creating a presumption in the minds of many wage-earners that their health was so important that any trace of indisposition should be reported and dealt with medically at once, the reform increased the normal loss of working weeks through sickness. The medical superintendent of a large concern in the Midlands, a man thoroughly in sympathy with the health insurance system and zealous in the discharge of his duties, told me, some

little time ago, of his anxieties on this score. In one recent year, 1929, if I remember rightly, nineteen million working weeks had been lost through officially reported sickness, and this total had grown from year to year, and was still growing, despite a marked improvement in the general health of the community. The growth, he believed, was not due in any appreciable degree to conscious malingering on the part of wage-earners, but mainly to their feeling that it would be better for them to run no risks and, even after their indisposition had ceased, to "coddle themselves" a bit so as to be on the safe side. In most cases, he said, the ailments were slight, and a return to the exercise and discipline of regular work would actually have hastened convalescence.

We went into the matter closely and reached the tentative conclusion that the root of the trouble was psychological, because the insured wage-earners did not feel they had any direct stake in the prosperity of the concern which employed them, or that they would injure it and themselves by staying away from work longer than was necessary. I suggested that if wage-earners had a direct interest in the concern they might think and behave otherwise, and that a main cause of industrial difficulties to-day lies precisely in the fact that labour, as labour, has little or no acknowledged status beyond its status as an element in the economics of production.

He thought that I was alluding to profit-sharing,



and stated the objections to this form of additional reward. I told him that I was not thinking of profit-sharing in the ordinary sense of the term, but of some form of recognized and effective partnership; for, when all is said and done, the real issue between capital and labour is whether they shall behave as hostile or semi-hostile yoke-fellows, under the terms of a bargain in which each has sought to get the better of the other, or whether their relationship shall be that of friends and allies in a joint endeavour.

In theory it would seem that, for capital as well as for labour, the choice should be easy between a spirit of antagonism and a spirit of alliance; but in practice it is far less easy. Generations of strife between labour and capital have left upon both of them scars too deep to be readily forgotten, and their respective outlooks are still widely divergent. Labour—and by “labour” I mean organized labour as represented chiefly by Trade Unionism—clings to the belief that its interests are best served by keeping up defensive and offensive combinations against the rapacity of capital, and looks forward, if not to the actual establishment of a dictatorship of the proletariat, at least to the nationalization of mines, railways, and other enterprises so that they may come under the control of the State which organized labour itself will control through Parliament or otherwise. For these reasons labour looks askance at attempts to harmonize its interests with those of capital and to merge them in any sort of partnership.



Such attempts tend, in the eyes of labour, to undermine the cohesion of the wage-earning class and to whittle away its coercive power by bribing sections of wage-earners to betray their true class interests. In fact, the spirit of organized labour remains a spirit of strife, not a spirit of peace; and its conviction that, in the last resort, victory can only be secured by successful hostility is shown in its gradual acceptance of an idea—that of the general strike—which has made considerable headway among trade unionists and other members of the Labour movement. From this idea has sprung also the Communist propaganda for “One Big Union,” so that a general strike can be more readily declared. How a general strike may be attempted was shown in this country at the beginning of May 1926, when such a strike was declared ostensibly in support of the Miners’ Federation but really with the object of asserting Trade Union supremacy over British industrial life.

\* \* \*

If this is a not unfair description of the outlook of organized labour, is there any corresponding outlook among capitalists, in so far as they are organized, and among investors who supply most of the capital engaged in industry? The words and the deeds of some enlightened “captains of industry” and the speeches of chairmen of some boards of directors at annual meetings suggest

that there is not. But the actual conduct of not a few industrial companies, and of those who finance and control them, makes it hard to be sure that the labour view of the inherent wickedness of capitalism is quite so baseless as it might otherwise seem to be. Many owners of capital believe firmly that they are entitled to unlimited remuneration for the use of it when once the costs of production have been met and provision has been made for reserve funds and for depreciation. They deny that human labour has any ethical claim to reward over and above the terms of the bargain that may have been struck between buyers and sellers of labour. A successful capitalist once put the matter to me thus:—

“I invest my capital in a business, and run the risk of losing it. For this risk I am entitled to whatever recompense my spirit of enterprise may bring me, especially if I put into the enterprise my own work and build it up by my own thought and effort. It is out of my capital, in the first instance, and afterwards out of my profits, that I pay good wages to men and women who might otherwise have no work at all. I do not compel them to take those wages. They are eager to earn them; and when they have earned them I do my whole duty by paying them. What I do with the rest of my profits is no concern of theirs, nor is it my concern what they do with the profits of their labour—that is to say, their wages. Live and let live is my principle. Why

should I admit that those whom my enterprise has helped to live have any claim upon it or me when once I have fulfilled the terms of my bargain with them?"

Not all capitalists reason so crudely as this, but many behave as though they did. Only this year the manager of a very big works on the outskirts of London told me that, as he had sufficient stock on hand, he had just sacked five thousand men. "When we have disposed of it," he added, "I shall take them, or others, on again." I asked what the men would do in the meantime, and he said that no company could prosper if it bothered about such things. The men might go on the dole, or find other means of livelihood if they could, but business was business. This was a company of which the shares stand at a high premium on the Stock Exchange.

Sometimes I wonder whether the directors and managers of prosperous companies understand how anti-social are some of the practices in which they frequently indulge. Of these practices one of the worst is so-called "watering" of capital and the issue of bonus shares in order to mask the profits that have been made and to enrich original shareholders. Still more reprehensible are the arrangements by which the directors of sundry colliery companies, who plead inability to raise miners' wages or to pay more than a small dividend to shareholders, form themselves into separate selling companies, buy the coal at low prices from the collieries they

control, and make large profits by selling it to the public at high prices. When I first learned of this infamous trick—which I trust is not general—and mentioned it to a prominent labour leader, he confessed that he knew of it but begged me not to make it known lest a strike break out and miners be thrown out of work. As long as such frauds on wage-earners and the public are tolerated, so long will social peace be beyond our grasp.

\* \* \*

There can be no social peace without confidence and straight dealing between capital and labour; and if the malpractices I have mentioned were characteristic of the capitalist system, there could be little hope of lasting peace on the hither side of some revolutionary change. But these moral considerations cannot disguise the fact that a revolutionary change is going on, a change which, because it is technical and neither moral nor political, is looked upon as natural and inevitable. This change is the progressive creation of unemployment by the development of "labour-saving" machinery. The simultaneous occurrence of world-wide industrial and business depression has made it hard to distinguish the transient from the permanent features of this distressing social phenomenon; and there may be reasons why no serious attempt so to distinguish between them has yet been made. Some industrialists and politicians imagine that the

reduction of employment by labour-saving machinery is a positive advantage in two directions, inasmuch as it tends to impoverish and to weaken the Trade Unions and other labour organizations, and to lessen costs of production without a corresponding decrease in prices. If so, they forget that, in the long run—which may not be so very long, after all—the problem of machine-made unemployment will, unless it be solved betimes, become so huge as to dwarf every other social or political issue and to imperil the stability of the entire social structure.

There are apologists of industrial mechanization who urge that present dislocations are only temporary, and that, sooner or later, new industries will arise and provide more work than ever before. They argue, too, that the men who remain employed are better paid than similar wage-earners once were. These arguments deserve careful attention. They may be based on practical experience, or they may be coloured by a feeling that, in any event, the progress of mechanization is inevitable, since no industry can afford to be less efficient than its competitors, and that, somehow or other, things will right themselves as they have always done in the past.

I am not quite sure that things have always "righted themselves" in the past without a degree of human suffering that might have been avoided by timely thought and provident action. Nor am I sure that markets, national and international, for the

products of mechanized industry will continue indefinitely to expand. Though the present disorganization and depression of the world's markets is doubtless abnormal, it must not be forgotten that the output of many industries throughout the world has now been reduced to a mere fraction of those industries' maximum capacity, and that, thanks to the productive power of mechanical plants, output could be doubled or trebled without any proportionate increase in the number of wage-earners employed. As Mr. Sprague, the expert adviser to the United States Treasury and late adviser to the Bank of England, pointed out in his letter of resignation to President Roosevelt last November, the United States has now an industrial plant largely in excess of the capacity of its markets; and it is a fact that, even if the industrial prosperity of the United States could suddenly be restored to the highest level it ever attained, seven years ago, there would still be no work for some six million of the twelve or more million American unemployed.

Therefore it is not safe to assume that circumstances like these will be transient, or that they are not direct consequences of mechanization. Only last year I visited an up-to-date factory of artificial silk at Lyons and saw a new machine which could wash many tons of silk per day. It was tended by one man and one girl, whereas the same work was formerly done by twenty-six men. And I may cite the well-known instance recorded in a New York

telegram to *The Times* of July 30, 1930, which said:—

The danger in the United States, as foreign observers have seen more quickly than Americans themselves, is unemployment which is the result of increased perfection of technical processes, and it is more acute in a country where the machine is undisputed master than anywhere else. There is now in operation at Milwaukee a machine which took several years to perfect and assemble. It covers three acres of ground and turns out every day 8,600 automobile frames, but requires the labour of no more than 120 men to operate it. This is not only a machine, it is a portent.

If we suppose that, before the perfecting and the assembling of this machine, the labour of only five skilled men would have been needed to turn out an automobile frame per day, it follows that one new machine has displaced the labour of nearly forty-three thousand men, provided always that the demand for automobile frames at the price reflected in the wages of these men had been as brisk as it was likely to be for the cheaper machine-made article. It may be said that, in view of the demand for automobiles, the craftsmen thus thrown out of work ought to be able to get employment elsewhere; but, granting increased demand, it would be the harder for them to find fresh employment because the competitors of the company owning the new machine will have been obliged in their turn to instal similar machines, so as to bring down labour costs and save



what are called "overhead charges." Such a machine is indeed a portent, and, unless means be found to correct the social consequences of the unemployment it entails, a portent of evil.

\*       \*

If the effects of this portent are to be mitigated or overcome it may be necessary to find other ways of dealing with them than those already adopted, in this country and elsewhere, as means of assuaging strife between capital and labour. Of such means the best known is profit-sharing by some distribution of profits among wage and salary earners, with or without facilities for the investment of such profits in the shares of the concern. In several instances profit-sharing schemes have worked well, perhaps too well, both in the United States and in Great Britain. I know of a large and prosperous Scottish undertaking which numbers most of its wage-earners among its shareholders. In fact, a public outcry arose some years ago against the high prices which this concern charged for its goods at a moment when the world was most in need of them. The big dividends which the company declared were even denounced as scandalous by a leading Conservative statesman. A few months later an election took place in the constituency where this Scottish concern is established. Outsiders naturally thought that the Labour and Liberal candidates, at any rate, would make play with the



alleged "scandal"; but when I asked one of those candidates whether the election had really turned upon this issue, he answered: "Certainly not. It was never even mentioned by any candidate. It was taboo by common consent. Most of the electors, men and women, hold shares in the concern, and they love the big dividends."

So in one Scottish centre, at any rate, social peace would seem to prevail, albeit at some cost to the consuming public. Into this aspect of social peace by shareholding I do not wish, at this juncture, to go more deeply than to suggest that it, like profit-sharing pure and simple, may work well as long as dividends are high or profits are large, but may work less well if dividends decline and there are no profits to share. Then the wage-earning shareholders might find themselves in the position of small shareholders at an annual meeting whose degree of control over the affairs of the company turns out to be insignificant.

Indeed, the weakness of the profit-sharing system lies in the consideration that, if it is to be equitable and not to savour of charity, it must involve loss-sharing as well, and that wage-earners are not, as a rule, able to bear losses in anything like the same degree as ordinary investors may be. Still, there are forms of profit-sharing in this country which deserve special attention because they accept, in various ways, the principle of co-partnership or employee partnership, which long reflection has led me to regard as

the only principle upon which social peace can, in the long run, be founded. But I hasten to add that, in my view, not even this principle can yield its full results unless it involve also a limitation of the rewards of capital without a corresponding limitation of the rewards of human labour by brain and hand.

With this reservation two examples of profit-sharing and, to some extent, of co-partnership are worthy of note. One of them is a fairly large textile undertaking in the north of England which employs three thousand five hundred men. When I asked one of the chief partners in it whether business was bad in his part of the country, he answered: "Yes, very bad, but we at all events cannot complain, for we have never made less than  $12\frac{1}{2}$  per cent. You see, we have a system. We never sack anybody, not even when work is slackest. Work or no work, we pay our men a little more than Trade-Union rates. This may go on for some months. The men work two or three days a week and get their full pay. Then come months when there is enough work on full time; and then, generally towards Christmas, there are the rush months when orders pour in. So we say to the men: 'No overtime; you had your full pay when there was little work, and if you now have to work extra hours you will not be paid extra for them.' They agree, because they see it is fair. As a matter of fact there never is any overtime. They work with such a will that they get

through the rush months in the normal hours and save a lot of money in fuel, lighting, and so on. We owners," my informant went on, "think we are entitled to 8 per cent on our capital. On anything over 8 per cent we go halves with the men."

"Wait a bit," I said. "You say you have never had less than  $12\frac{1}{2}$  per cent on your capital. So if, when you have got your 8 per cent, you go halves with the men on the rest, it must mean that the men get  $4\frac{1}{2}$  per cent on the capital over and above their wages."

"Of course," he returned. "The men feel that we all belong together, and that they have an interest in avoiding waste, and in doing the best they can. Some years ago all of them left their Trade Union in a body. When we found that the Trade Unions were trying to get them back and were sending emissaries into the works, we invited the Trade-Union officials to talk to the men openly during the luncheon hour. They carried on quite a campaign, and in the end persuaded three men to rejoin."

I asked further whether the men had any share in the control of the company, and was assured that they did not desire it. Through works councils the management was always in touch with the men, and the foremen lunched with the partners and managers at least once a fortnight.

In another case, that of a large manufacturing company which produces an article in general use, a twofold scheme, introduced in 1919, has also worked well. Its main features are that, after allowance out of profits for depreciation and reserve fund, and after payment of dividend on preference shares and 10 per cent, free of income tax, on the ordinary and partnership shares, surplus profits are divided equally up to a total of 15 per cent between the ordinary shareholders, who get an extra dividend, and the employees who get a bonus. This bonus is limited to a sum equal to  $12\frac{1}{2}$  per cent of the total wages and salaries paid during the year. At the same time opportunity is given to the employees to become co-partners by using their bonus to subscribe for partnership shares which carry the same dividend as ordinary shares, but do not debar holders from receiving a further bonus. Employees become eligible for the purchase of partnership shares after two years, unless their work has been irregular or unsatisfactory. In this event their bonus goes to a special benefit fund for wage-earners in general. Partnership shares are not transferable or saleable, but a holder of fifty or more is entitled to attend and to vote at the general meetings of the company.

This scheme, with which a life insurance fund and a staff pension fund are connected, was inspired by recognition on the part of the employers that the human element is of the utmost importance in

industry, and by a belief that a personal relationship and a team spirit have a definite place in industrial organization. Industry, conducted in this spirit, may be a social and national service.

Yet, it may be argued, if these systems work so admirably in some instances, why are they not more generally applied? Why cannot the whole trade and industry of the country be managed on similar lines? The answer lies partly in the views still prevalent among the majority of capitalist employers and equally in the views held by organized labour. If capitalists or investors cling to the notion that they are entitled to all the profits when once human labour, raw materials, and other running charges have been paid for, they will not be disposed to forgo the chance of large gains merely in order to render a service to the community. If, on the other hand, trade unionists and labour leaders are persuaded, by Marxist doctrine or otherwise, that all improvements in the lot of wage-earners are and must be mere palliatives until the class-conscious proletariat shall have conquered political power, they will set their faces against such compromises with capitalism as profit-sharing and co-partnership schemes represent. The antagonism between these two divergent outlooks is too old and deep-seated to be easily removed. When all is said and done, the root of labour antagonism to capital is distrust, a distrust so abundantly justified by the past history of capitalist industrial development that it will

scarcely yield to mere persuasion. There are, besides, vested interests on the one side and on the other—the vested interests of capital in its property and its opportunities for high profits, and the vested interests of labour organizations and political parties in their own systems of influencing the “labour market” and of gaining control of the State. Each of these vested interests is, at bottom, hostile to enduring social peace.

It remains to be seen whether, by example even more than by precept, intelligent capitalists and lovers of social peace cannot hit upon some system that will, in time, relegate these vested interests to the background, and put the welfare of the community not only in the front but permanently on top.

## CHAPTER IV

# EMPLOYEE PARTNERSHIP: THE MAIN ISSUE

IF the vested interests of capital and labour are, under present conditions, hostile to an enduring social peace, and if distrust lies at the root of labour antagonism to capital, what chance is there of changing this hostility and distrust into a spirit of active concord? Vested interests are apt to defend themselves stubbornly; and distrust may linger in the shape of suspicion long after its causes have been removed. In the last resort the quest of social, as of international, peace resolves itself into a search for security. Now a sense of security springs either from belief in the unlikelihood of strife or from a consciousness of strength so superior to the strength of possible assailants that successful attack on their part is felt to be out of the question. When strife is thought probable, or when one of two parties in a prospective conflict fears that the other party may assail it successfully, the mood of both is usually a mood of suspicious watchfulness and of readiness to take advantage of any weakness that may appear on either side. Thus the tactics of strife receive far more attention than the tactics of peace, and the advantages of concordant alliance are forgotten

amid hopes of ultimate gain from some shrewd and well-timed offensive.

Among the reasons for the persistence of a "war mind" among nations, and among classes and individuals whose interests are or are supposed to be divergent within nations, none is more potent than the tenacity with which nations, classes, and individuals cling to their respective "sovereignties" and decline to brook interference with their right to do as they may please with what they think their own. Were I to risk a dogmatic assertion, it would be that the progress of civilization can be expressed in terms of the mitigation of unlimited sovereignties and in the willing or unwilling acceptance of a higher common interest as overriding them. How this dogma works out in the industrial sphere one or two examples may help to show.

Soon after the War a family, well known for its public spirit and humane outlook, found that a little colliery which it owned somewhere in the North of England was being worked at a loss. The colliery was not good enough to be readily saleable, its plant was out of date, and, after anxious thought, the family felt that the only sensible course would be to close it. But a relative of the family, a man with a certain aptitude for business, thought he could make the colliery pay if he were allowed to manage it. The family agreed that he should try. He did so; but, despite his efforts, made a dead failure of it.

So the family decided once more to close the



colliery, and informed the miners and their families, some four hundred souls in all, that work must cease. These poor people were aghast. There was no other work in prospect for them, they had nowhere else to go, and saw starvation staring them in the face. In despair they begged the family to let them mine the coal for whatever wages could be paid. To this proposal the owners felt they could not assent, and insisted that at least the minimum wage must be paid. But, in view of the spirit shown by the miners, they undertook to sacrifice their sovereignty and to let representatives of the miners inspect the books and see for themselves how difficult, not to say impossible, the position really was. The miners accepted this condition and, having seen where the shoe really pinched and that the owners had not been taking an unfair advantage of them, they set to work with such a will that, in a very short time, losses disappeared, something over the minimum wage could be paid, a slight return made on the family's capital, and, in less than two years, new winding plant could be bought and installed. This was done notwithstanding continued depression in the coal industry because distrust had been removed.

It may be said that what could be done with a small family business would hardly be practicable in a bigger undertaking. There are, doubtless, cases in which changes of dimension alter the very terms of a problem, though I do not think that this is one

of them. Let me give another instance—again that of a colliery. During the coal strike of 1926 the chief proprietor of a large colliery, not a hundred miles from London, asked me to help him out of a difficulty. His men, some twelve hundred of them, had struck work at the behest of the Miners' Federation, though they had not been very eager to "come out." After a week or two of the strike the proprietor found that the strike funds for the maintenance of the miners' wives and children were running low, and would be exhausted in less than a month. He discovered also that the cost of feeding the women and children was about £100 a week. So he offered to give £100 a week to the women and children as long as the strike lasted.

Then doubts assailed him. He feared lest the men suspect him of trying to bribe them through their women and children, and feared also that, if his fellow mine-owners come to hear of what he had done, they might think he was "blacklegging" by "playing up to the men." So he asked me, as what he called a "literary fellow," to draft a letter for publication in such a way that, on the one hand, the men would understand that he was not trying to bribe them, while the mine-owners would see that he was not "blacklegging." By dint of cudgelling whatever brains I possess I drafted a letter which had the desired effect. The strike went on, as will be remembered, for some seven months, and the owner paid his £100 a week regularly. He explained to

me that he could really afford it because the mine had been losing money at the rate of £1,000 a week, so that, despite the heavy cost of pumping during the strike, he was actually better off when the mine was not working than when it was. Still I saw that his action had been prompted less by pecuniary than by humanitarian motives.

After the miners had returned to work I asked him how things were going on. He shook his head, said that the loss was as heavy as ever, and that he would not be able to stand the strain indefinitely. He had done what he could for the men, had put the most up-to-date plant into the mine and had engaged the ablest managers in the country. Yet there was no real improvement and he was nearly at his wits' end.

At last, in 1928, he told the men that he could go on no longer, and that, if there were no improvement within six months, he was determined to close the mine. Some of the men answered that they were not going to slave below ground merely in order to put money into the pocket of a capitalist—to which distrustful observation he replied with truth that what they had really been putting into his pocket was a big hole. Then he made them a “sporting offer.” It was that they should run the mine themselves. He did not believe in profit-sharing which, in that instance, would have been loss-sharing; but he did believe that employers should put all their cards on the table, treat their

men as associates in a joint enterprise, and make human welfare the foremost consideration.

The offer was accepted. At the owner's suggestion, two committees were formed—a joint managing committee, consisting of two representatives of the owner, or of the company which he controlled, and two representatives of the miners; and a labour committee consisting of an independent chairman, chosen from the ranks of the workers, one of the workmen's representatives as secretary, and one of the company's representatives. The managing committee would determine a joint policy for the mine, control administration and production, and have full access to all facts and figures. The labour committee would have the sole right to engage and discharge miners and other workmen and to regulate wages.

The effects of these arrangements were astonishing. As soon as the men found that they were really being treated as associates and given access to all facts and figures, they made the place too hot for a number of Communists who had been stirring them up against the owners. The labour committee decided that no new men should be employed unless their characters as honest workers were vouched for by men already employed, or by a minister of religion. In a short time losses dropped from £1,000 to £200 a week. The men admitted that hundreds of tons of coal had been unnecessarily burned in the boiler house, and that, below ground, all kinds of

deliberate waste had gone on unknown to the management or to the owners. These things were swiftly put right. When I talked to the chairman of the labour committee, who happened to be also Secretary of the local Labour Party, he assured me that, if the new system could go on for a year or two the agitator was not yet born who could make trouble in that mine. Later on I described in an article the change that had come over the spirit of these miners, and, for the sake of accuracy, submitted the proofs of it to the owner. He said it was all right as far as he was concerned, but that there was not enough in it about the men, and that he would like to show it to them. I agreed. The proofs were examined by a committee of the miners, and when I got them back I found that the men had written into them a long passage in praise of the owner, his good deeds, and his humane ideas.

As ill fortune would have it, the owner died suddenly. Estate duties were heavy, depression in the coal industry became acute, and it seemed doubtful whether, with all the good will in the world, the mine could still be carried on. It was then that the associate system proved its value, for the men, seeing that their own wages were the biggest item in costs, proposed that wages be cut by as much as 20 per cent in the highest grades, and by proportionately less in the lower grades. The very lowest rates were left untouched. The only condition they made was that, if a profit should presently be

earned on the coal from the best seam in the colliery, the first charge on these profits should be a restoration of the wage cuts. Exactly how things stand to-day I do not know, though on inquiry I was informed not long ago that the colliery is still "carrying on."

\*   \*   \*

In those two instances collieries were saved by the removal of distrust; and in neither was there a question of profit-sharing but rather of willingness to share losses and to make the best of things because distrust had been removed. In both instances, too, there was a surrender or mitigation of "sovereignty" on the part of the owners. A third and somewhat more complicated illustration will serve to bring out the significance of these things and to suggest what I believe to be the way to social peace.

This illustration comes from New Zealand where, some ten or twelve years ago, an industrial position, full of menace, was seen to be developing. Whether the menace was due to special local conditions or, in the main, to a peculiarly virulent form of militant Communism known as "The Industrial Workers of the World," or I.W.W., I cannot say. In any event it was such as to persuade a group of thoughtful New Zealand business men that "something must be done." Perceiving that distrust was at the bottom of the evil and that, in order to overcome it, wage-earners should be recognized as

possessing a human status in industry above and apart from their status as sellers of labour, these business men came to the conclusion that the best means of banishing distrust would be to issue to wage-earners, free, gratis, and for nothing, "labour shares" which would entitle them not only to participate in profits but to have a voice in the working of the concerns which employed them. Yet when the business men sought to put this idea into practice they found it could not be done under New Zealand Company Law, which only authorized the issue of shares in return for a capital payment. Under the leadership of an enlightened New Zealand saw-miller, Mr. Harry Valder, now Chairman of the Employee Partnership Institute of Hamilton, New Zealand, they promoted and, in 1924, secured the passage through the New Zealand Legislature of a Companies Empowering Bill to authorize the issue of labour shares, without payment, to persons employed by any company.

Thus the New Zealand Companies Empowering Act became law. Under it labour shares have no nominal value, do not form part of the capital of a company, and are not transferable save as its Articles of Association may determine, but they may entitle the holders to attend and vote at meetings of shareholders, to share in the profits of the company or in its assets in the event of its being wound up, and otherwise to enjoy all the privileges of capital shareholders.



Mr. Valder's own arguments, as an employer, in support of this Act deserve careful attention. It is necessary, he says, to clear away the confusion about the real problem of industry. The organization of industry involves the association of the human element (labour) with the material element (capital). Labour includes every phase of human activity and, in company organization, it covers directors, managers, foremen, and manual workers. Capital, which is another name for property, includes every kind of property used in industry, and is classified according to the risks it runs, that is to say as loans, preferred and ordinary capital. The difficulty of drawing a clear line of demarcation between labour and capital is the cause of many industrial difficulties, and the methods followed in distributing the rewards of industry are not based on any clear conception of the contributing factors.

One class of individuals contribute capital only, and take no active part in the conduct of the business. Under the existing industrial system their reward is either a predetermined rate of interest on loans or preference stock, or a share in the surplus profits after payment of all costs of production (including predetermined interest on capital) as a reward for the capital engaged in the form of ordinary stock or shares.

Another class contribute personal service only, and receive a predetermined wage or salary. There



is no direct relation between this reward and the amount of surplus profit, if any.

A third class contribute both personal service and capital. This class has a dual status and a dual reward in the form of payment for services rendered and for the capital contributed.

The first and the third of these classes share the surplus profit, if any, to the entire exclusion of the second class, that is to say the contributors of service only. There is, in fact, no equation between capital and labour. There is an equation between the different classes of contributors of personal services (directors, managers, foremen, and other employees). There is also an equation between the different classes of capital (money on loan, preferred and ordinary stock, or shares). But there is no equation between the active, human element, or labour, and the non-active, material element, or capital.

Such a method of distribution relegates the mere contributor of service to the position of a machine, and this situation no man can accept; he must always revolt. It is often urged that the human element does not risk as much as does the capital element. This argument is thoroughly fallacious. No financial risk can be said to equal the risk of human unemployment, affecting as it does a man's very existence. But even if human unemployment could be assessed in terms of money, it is fair to assume that the amount lost from this cause would

be at least equal to, if it did not exceed, the loss of capital.

The problem, Mr. Valder concludes, can only be solved by getting back to first principles, and by giving the human element in industry its rightful status. The solution lies in paying the owners of capital a sufficient predetermined rate to attract the required capital, and in dividing the surplus profits among the active agents of industrial production, according to the measure and the value of the service contributed.

The Companies Empowering Act was passed with the approval of the New Zealand Labour Party, which may not fully have understood how its provisions would work out. Indeed, Mr. Valder and his friends were very careful not to lay down hard-and-fast lines for the application of their principles. Their aim was to produce a plan elastic enough to apply, in any degree, to any kind of business which is run for profit. Mr. Valder's own view is that the services of capital should be paid for at the market rate, which may be the current rate for bank overdrafts or bankers' loans, *plus* a risk rate of 2 or 3 per cent as an insurance against the loss of capital. The innovation consists in looking upon the relations of capital and labour as a "limited partnership" in which capital contributes its part of service as an agency of production and receives a fair price for such service, while labour contributes its service by hand or brain and receives

wages or salaries in respect of this service; and in affirming and applying the principle that, over and above this "limited partnership," the claim of human labour to reward is intrinsically superior to the claim of capital.

\*       \*

The actual working of a concern which had adopted the employee partnership system was explained to me three years ago by the managing director of a printing and publishing company at Hamilton, New Zealand. Though, I understand, Mr. Valder thinks that the scheme applied by this company is not favourable enough to labour shareholders, because its capital shares are too highly remunerated, the managing director's account of it brings out the underlying principle with sufficient clearness.

The company, he said, was started with the comparatively small capital of £20,000. From the outset it made good profits, which ranged as high as 21 per cent. But its workmen were discontented. The fact that the company was prosperous seems not to have aroused their enthusiasm; nor did they show signs of boisterous good will when the capital of the company was "watered" by being increased nominally to £60,000 so that the dividends appeared to be, though they were not really, smaller. Discontent grew until the position became thoroughly uncomfortable. At last the managing director, who held





a good many shares in the company, persuaded holders of the majority of the shares to take advantage of the Companies Empowering Act and to issue labour shares to all employees under amended Articles of Association. According to these amended Articles the number of labour shares to be issued was fixed by the Board of Directors, who were also authorized to allot and distribute them at their discretion, subject to the provision that the total number of labour shares should at no time exceed two-fifths of the ordinary shares issued and paid for.

The first charge on the annual profits of the company, after setting aside a sufficient sum for the reserves, was the payment of a dividend on capital shares up to 7 per cent, or up to the current bank rate of interest on overdrafts, whichever might be the greater. This charge was made cumulative, so that if the full rate were not paid in one year the shortage became a charge on the profits of subsequent years.

The second charge on profits was an equivalent, but non-cumulative, dividend on labour shares, though the company was not bound to pay this dividend in full for any year in which enough profits had not remained after providing for reserves and for the dividend on capital shares; but the dividend on labour shares had to be made proportionate to the dividend on capital shares so far as the surplus profits might allow. Before reckoning surplus profits,

provision was to be made for reserves to meet fluctuations of trade, and to cover depreciation, upkeep, repairs, unemployment, sick pay, and pensions. When these claims had been met, the balance of available profits must be divided equally between capital and labour shares until an additional dividend of 2 per cent had been paid on capital shares. Thereafter capital shares would have no further claim, and any profits that might remain over would go to pay a non-cumulative dividend, up to 6 per cent, on a special class of deferred capital shares, called "B" shares, to be allotted to labour shareholders on the surrender of their labour shares or in respect of any proportion of the profits of the company to which holders of labour shares might from time to time become entitled. When a 6 per cent dividend had been paid on these deferred "B" shares, the final balance or surplus of profits, if any, would go entirely to the ordinary labour shareholders.

Thus, in principle, the remuneration of capital under this scheme is limited to a maximum of roughly 9 per cent, while, after the labour shares have likewise received their 9 per cent, the remuneration of labour is unlimited. In the event of winding up the company, its surplus assets (after repayment of all invested capital to capital shareholders) must be divided between capital and labour in proportion of three-fifths and two-fifths.

The labour shares are distributed to all who work,

from the managing director at the top to the apprentices or office boys at the bottom in proportion to the value of their services. They are not transferable or negotiable; but, if they have been held by employees of the company for five years, they may be surrendered in return for cash payment or for deferred capital shares of the "B" category. This point is decided by the directors, of whom three are elected by labour shareholders; and the value of the surrendered shares is determined by their relation to the value of the company's reserves at the time of surrender.

The labour shareholders elect their three directors annually on the basis of one vote for every twenty labour shares they hold, provided always that no labour shareholder shall have more than two hundred and fifty votes in respect of his shares. The labour directors have all the rights and powers of capital directors, save that they have no voice in the election of capital directors, and are not entitled to determine the policy of any newspaper or newspapers published by the company. But they have access to all the accounts of the company and to all information concerning it. In case of any dispute between employees and the company, one labour director and one capital director, with the chairman of the company as president, form a tribunal of adjudication and arbitration whose award is final.



These are the dry bones of the system. Its flesh and blood, that is to say its actual effects, are more interesting. As the managing director explained to me, he had a hard fight with himself before he could make up his mind to recommend the system to the other capital shareholders because he saw that it might diminish his own income by £400 or £500 a year. Still, the chance of being at the head of a contented and willing body of men struck him as being worth some pecuniary sacrifice. When he had persuaded the holders of the majority of capital shares to accept the scheme, he was still confronted with the obdurate resistance of the largest shareholder of all, who would not admit that there was anything like a "right" on the part of wage- or salary-earners to any reward beyond their wage or salary. Still, this opponent could not hold up the scheme, and the managing director presently explained it to a meeting of the men. After hearing it, one of the men's leaders, a Communist by political persuasion, exclaimed: "If you are an honest man, tell us: Where is the nigger in this woodpile?" The answer was: "There is no nigger." "Then," returned the Communist, "you mean to make us partners." "Precisely," said the manager, and was rewarded by the ejaculation: "I don't believe you."

Nevertheless the scheme was put through, labour shares being allotted to every employee proportionately, salary-earners and wage-earners alike. As soon as the wage-earners saw that there was really

no "nigger in the woodpile," that labour shares were fairly allotted, that the three labour directors whom they had elected took their seats on the Board and were given full knowledge of the company's affairs, and when they found that at the end of the first year the same dividends were paid on labour and capital shares with a slight surplus for labour, their whole outlook and behaviour changed. What the managing director called "a moral revolution" took place. Several Communists, who had been fomenting ill-feeling among the men, were driven out by the men themselves, who also made many suggestions for the avoidance of waste and for positive economies of which the management had never dreamt. Work went with a swing, and the company's prosperity increased by leaps and bounds. Every year the "previous best" was bettered. If, at first, the capital directors had been inclined to look upon the labour directors as interlopers, they soon found that their labour colleagues knew so much about the practical side of the business that they sought their advice and took it. A spirit of genuine comradeship replaced the old distrust, and the men showed themselves more intolerant of any "slacking" or bad work than the old management had ever been.

I asked the managing director what the men thought about labour-saving machinery. "They insist on having the best machinery," he answered. "If machines can do the work and earn the profits

while men work shorter hours or find their labour lightened, why not? The only trouble with machinery arises when it is felt to be displacing human labour for the sole profit of capital, and when the men do not know what the management is 'up to.' "

There is an instructive epilogue to this story. Representatives of the New Zealand Labour Party heard of the "moral revolution," and called upon the managing director. He explained the system, showed them the Articles of Association, and advised them to talk to the men. When they had done so, he asked why the New Zealand Labour Party should not use its influence to get a similar system applied throughout New Zealand, beginning with the railway companies. The Labour leaders shook their heads and answered: "No; if that were done, we should never get nationalization."

\*       \*

If the price of social peace were the postponement of nationalization and other plans for turning industry into vast preserves of politician-ridden officialdom, I am old-fashioned enough to think that the price would be worth paying. But, as the New Zealand experiment shows, another part of the price is the voluntary surrender by capital of a considerable measure of its sovereignty. It must cease to look upon its services as superior or even as equal to those of human labour by brain and hand. This, I know, is a hard pill for capital to

swallow; though, like other pills, its workings might be conducive to the health of the body-social and the body-politic. The New Zealand experiment helps also to show that the distrust which clogs the wheels of industry may not be got rid of by pecuniary rewards alone. Salaried or wage-earning labour needs to be given a higher status by being admitted not merely to profit-sharing but to effective partnership, with all the knowledge of the business which partnership implies. Nothing short of full knowledge can be a lasting safeguard against distrust. And if the prospect of limiting the maximum rewards of capital be thought repellent, it is well to reflect that the maximum reward is already fixed in many instances, and that the vast majority of capitalists, that is to say of investors in business undertakings, stand to gain considerably by a system under which waste is avoided, economy practised, and a team spirit promoted. Speaking as a very minor capitalist, I feel I should be fortunate if all the concerns in which my modest substance is invested could pay me an assured dividend of even 5 per cent, and if I knew that those concerns were worked by contented men and were beyond danger of dislocation by strikes or serious friction of any kind. And to me, as a capitalist, it would matter little if the men got higher dividends on their labour shares than mine on my capital shares, for they would have put their work, and sometimes the risk of their lives, into the earning of my dividend, and would

therefore be entitled to higher rewards than I, an inactive partner, could justly claim.

\*       \*

There are, of course, many other systems of effective partnership in the United States and in this country. Some, like the well-known Dennison system in the United States, are even more favourable to the human element than is the New Zealand system, and some are less. But I have preferred to discuss, throughout these lectures, cases of which I have some personal knowledge; and nothing has struck me more during such study as I have made of employee partnership than my own and others' ignorance of what has already been done in this country.

Two years ago I was invited to address a conference of industrial managers and other business men in a large Midland city. After the meeting a man waited for me at the door and said he thought I might be interested to hear of his experience. I took him into a room with two prominent residents in the city in question. He said: "After the War, one or two friends and I, who had a little capital, thought we would start a boot and shoe business. We bought some machinery, took one small shop to sell our goods in, and made a beginning. From the outset we worked on an employee partnership basis. We have never looked back. Never have we earned less than 20 per cent on our original capital. The wages

or salaries of all employees have been doubled, the price of our goods to the public has come down by 40 per cent, and we have now fifty-seven shops in this city and its surroundings."

"Are you Mr. So-and-So?" asked one of the prominent residents. "Yes," said the man. "How extraordinary!" was the reply. "I have seen your business grow and grow and never knew how it had been done."

There may be many similar cases of which little or nothing is known. If so, social peace may be nearer than we think. But, on the other hand, there are ominous signs of strife, and of preparation for strife, political as well as social. An article by the well-known Socialist, Mr. H. N. Brailsford, in the *News Chronicle* of November 23, 1933, contains the following passage:—

A militant middle class, with its dare-devil younger generation to lead it, faces the organized workers. If, on both sides, there has developed a distrust in Parliamentary procedure, and a contempt for its dilatory and irresolute ways, the issue between them can be decided only by force. The class which first decides to organize itself for this new phase will enter the contest with an overwhelming advantage.

The article from which I quote this passage is entitled "Will England Go Fascist?" It, and other recent manifestations of a dictatorial temper both on the middle-class and on the labour side, tend to show that things may be getting beyond the stage

of academic discussion upon the advantages and drawbacks of this or that economic principle. This is no reason why economic principles should not be discussed or schemes of social reform be put forward, but it is a reason why the urgency of the issue between capital and labour should be recognized, and why no time should be lost in seeking and following sound paths to social peace. Hitherto, organizations as excellent as the Industrial Co-partnership Association have made little headway, perhaps because the problem they seek to solve has not been thought really urgent. Nor has widespread interest yet been taken in such a scheme as that which an experienced man of business and colliery owner has advocated for the salvation of labour and capital alike. This scheme is called the "Ark" plan or, in its present form, the "Ark Industrial Constitution." Like Mr. Henry Ford, its author believes that the cause of industrial unrest lies not so much in the desire for higher wages as in the desire for justice, and that without justice there can never be social peace or lasting prosperity.

The "Ark" scheme sets out from the principle that shareholders, management, and labour are equal and essential parts of every industrial organization, and that their interests are identical. Therefore they should work as a partnership for their common benefit. The scheme provides for a fair all-round division of the profits of industry among those who contribute to it monetary, intel-

and  
his is  
ot be  
put  
of the  
ecog-  
eking  
herto

Co-  
dway,  
solve  
wide-  
ne as  
and  
on of  
d the  
ndus-  
uthor  
s not  
n the  
e can

nciple  
are  
rgan-  
tical.  
p for  
for a  
ustry  
intel-





lectual, and manual services, profits being divided in direct proportion to the value of the services rendered. After payment of a fixed, fair, and unvarying living wage, the share of profits to be received by each member of these three classes is to be determined by and based upon the amount of his monetary subscription or of his earnings as the case may be.

Monetary contributors, claim the advocates of this scheme, are not justified in looking upon all profits, or all losses, as theirs alone. The object is to eliminate the supposed line of demarcation between the interests of capital and those of labour, and thus to provide a common basis of remuneration. It is proposed that debentures at a low rate of interest be made available for purchase by those who prefer investments with a fixed preferential return, and that ordinary shares shall rank for dividend with the other services. Unlike the New Zealand scheme, the "Ark Industrial Constitution" does not seek to place any predetermined limit upon the reward of capital or, indeed, upon any feature of productive effort. Nor does it admit that the dividends payable to the intellectual and manual services will necessarily entail any considerable reduction of the rewards for monetary services. The advantages of greater security and of increased effort, which would accrue from participation in the profits of industry, may reasonably be expected to ensure adequate dividends as payment for monetary ser-

vices. The maintenance of such dividends would, it is argued, be looked upon as a means of preserving the credit of an industrial enterprise and as proof that the intellectual services had been rendered with the same exactitude and probity as are expected from the manual services.

The "Ark" scheme insists, further, that "watered" capital must be rigidly excluded from industry, and that there must be fair representation for all employees on the Boards of companies up to two-fifths of the whole Board, so that the distrust arising from secrecy may be removed without impairing efficiency or endangering control. As regards the rewards of labour by brain and hand, apart from wages and salaries, the "Ark" scheme provides for an ascending scale of bonus payments in recognition of merit, and for the purchase of ordinary and debenture shares by employees in the concern out of accumulated savings, bonuses, or dividends. Its authors claim that it differs advantageously from other schemes in providing for a better distribution of profits and in establishing a real degree of economic citizenship by co-operative effort for the common benefit. The equitable distribution of the profits of industry would necessarily result in the better distribution of the wealth of the world, and consequently in a higher degree of social stability and in industrial peace. It is suggested that a register of undertakings which adopted these principles might be publicly kept, and a badge conferred, as

an emblem of public service, upon all companies or employers that had adopted them.

\* \* \*

Sound and far-sighted though the main features of this scheme undoubtedly are, and inspired by zeal for the promotion of that economic citizenship without which there can be no guarantee of stability in any community that is democratically governed, my own preference is still for the New Zealand system because it clearly affirms the superiority of the human factor in industry over the factor of capital. Revolutionary though this affirmation may be, I am convinced that it alone points to the way in which social peace can in the long run be successfully sought. In saying this I do not ignore the many objections that may be raised, or the determined opposition which attempts to carry this principle into effect are certain to meet with, both from the older school of capitalists and investors, and from organized labour inspired by Socialist or Communist ideals. To some of these objections I shall presently refer, and shall try to define the issues which, in my view, confront us. These issues are political and social as well as industrial and economic. In the last resort they are ethical and, as such, should govern our outlook on life and on the nature if not the purpose of civilization. There may no longer be time for piecemeal adjustments of our social structure and of our free institutions to the revolu-

vices. The maintenance of such dividends would, it is argued, be looked upon as a means of preserving the credit of an industrial enterprise and as proof that the intellectual services had been rendered with the same exactitude and probity as are expected from the manual services.

The "Ark" scheme insists, further, that "watered" capital must be rigidly excluded from industry, and that there must be fair representation for all employees on the Boards of companies up to two-fifths of the whole Board, so that the distrust arising from secrecy may be removed without impairing efficiency or endangering control. As regards the rewards of labour by brain and hand, apart from wages and salaries, the "Ark" scheme provides for an ascending scale of bonus payments in recognition of merit, and for the purchase of ordinary and debenture shares by employees in the concern out of accumulated savings, bonuses, or dividends. Its authors claim that it differs advantageously from other schemes in providing for a better distribution of profits and in establishing a real degree of economic citizenship by co-operative effort for the common benefit. The equitable distribution of the profits of industry would necessarily result in the better distribution of the wealth of the world, and consequently in a higher degree of social stability and in industrial peace. It is suggested that a register of undertakings which adopted these principles might be publicly kept, and a badge conferred, as

an emblem of public service, upon all companies or employers that had adopted them.

\*   \*   \*

Sound and far-sighted though the main features of this scheme undoubtedly are, and inspired by zeal for the promotion of that economic citizenship without which there can be no guarantee of stability in any community that is democratically governed, my own preference is still for the New Zealand system because it clearly affirms the superiority of the human factor in industry over the factor of capital. Revolutionary though this affirmation may be, I am convinced that it alone points to the way in which social peace can in the long run be successfully sought. In saying this I do not ignore the many objections that may be raised, or the determined opposition which attempts to carry this principle into effect are certain to meet with, both from the older school of capitalists and investors, and from organized labour inspired by Socialist or Communist ideals. To some of these objections I shall presently refer, and shall try to define the issues which, in my view, confront us. These issues are political and social as well as industrial and economic. In the last resort they are ethical and, as such, should govern our outlook on life and on the nature if not the purpose of civilization. There may no longer be time for piecemeal adjustments of our social structure and of our free institutions to the revolu-

tionary changes that have been and are being wrought by the most modern methods of industrial production. The urgent question may have to be faced whether a new alignment of the forces of social progress is not indispensable to save those forces from being overwhelmed by the systems of intolerant violence which are developing on the Right or on the Left. Much more is at stake than the rights of capital or the level of dividends; and few things seem to me of greater importance than to understand the true dimensions of this matter before it is too late.

## CHAPTER V

### OBJECTIONS AND ANSWERS

THE objections to any practical admission that the rights, or the claims, of human labour are essentially superior to those of capital are of two kinds—antecedent and ulterior. One kind, the antecedent, may represent the views either of cautious capitalists and investors or those of supporters of labour organizations and advocates of some form of Socialism. The ulterior objections, or those based upon the anticipation of drawbacks which experience might show to exist after the event, affirm the inadequacy of employee partnership schemes as a means of reconciling labour and capital, and allege that such schemes cannot in any case solve the social problem.

Neither I nor others who believe in the principle which is embodied in the Companies Empowering Act of New Zealand overlook the difficulties that may have to be overcome before it can be successfully applied. An idea may be thoroughly sound, and may nevertheless work itself out in ways unforeseen. Yet this is no reason for rejecting sound ideas or for postponing attempts to use them in the solution of urgent problems. If every social reform had been delayed until it could be made safe, and proof against human perversity, progress would have been slow indeed. We need, in Carlyle's



phrase, "to get our eye on the knot that is strangling us," and to see whether we can loosen it even if we cannot cut it through. Besides, if my own experience is any guide, objections raised in advance, like those based upon possible ulterior consequences, have a curious way of not presenting themselves in the forms or amid the circumstances which were anticipated. They are rather like the old question how to solve the problem of walking. The answer was, "Solvitur ambulando"—it is solved by walking. What is needed is the impulse to walk, and some guidance for timid feet.

Against the principle of employee partnership it is alleged, for instance, that the real conflict is not between capital and labour but between skilled managerial labour and unskilled manual labour. If the wage-earner is well and adequately paid for his labour—so runs the argument—while the owners and managers of a concern are overpaid, it does not therefore follow that the wage-earner is entitled to or can claim a "right" to be admitted into partnership with them. Surely a casual labourer, this argument goes on, has no "right" at all to any of the profits of a business other than his right to a just wage which he may continue to draw even when the business is being run at a loss.

A further objection is that, if the remuneration of capital be limited, no capital will in future be attracted to those hazardous enterprises in which the whole of the capital may be lost though success

brings high rewards. An element of gambling enters into all such business, and often forms its chief attraction. Would not this important element disappear entirely under a hard and fast employee partnership system?

A more serious objection to a form of employee partnership which involves some surrender of sovereignty on the part of capital, and some share of control on the part of wage-earners, is that work-people, as a rule, value a share of profits more than a share in control, and that theoretical insistence upon control, as the essential thing, has helped to prevent the spread both of profit-sharing and of co-partnership. Though it is admitted that the New Zealand scheme, like the other instances of the surrender of sovereignty by capital which I have mentioned, do not give actual control, it is urged that they do imply arrangements which enable employees or their representatives to have knowledge of the whole working of the business; and it is contended that the great majority of business men would rather go out of business than allow those whom they employ to share business secrets.

The labour objections are, broadly, that employee partnership, like all other essays in social reform, are at bottom nothing more than efforts to bolster up the iniquitous capitalist system and to undermine the cohesion and to sap the strength of militant labour organizations. As such they must be resisted and rejected, no matter how effective

they may seem, since the true aim is the complete emancipation of the workers from the thralldom of capitalism.

\*   \*   \*

These are some of the antecedent objections. The ulterior objections, or objections "after the event," run on slightly different lines. Industrial co-partnership through the medium of labour shares, it is said, would not abolish competition between companies in the same line of business. The aim of these various companies would still be to reap as much profit as possible for the individual business (even if the profit be distributed more fairly) and this could only be done at the cost of the consumer. And, supposing that all companies in an industry were run on co-partnership lines, would not the net result be so to intensify competition that the earnings of capital and labour would be reduced to a very low level? Besides, the idea of labour for profit is in danger of being over-emphasized. Much more stress ought to be laid upon the idea of social service. How can productive industry be conducted under any system of private ownership, with perfected machinery and mass production, and still leave full scope for men's mental and physical development? A "team spirit" is not enough. Some sort of national planning and, indeed, world-planning is necessary, and would surely be preferable to the prevailing economic

anarchy although it may involve an increase of bureaucracy or officialdom. The present competitive system is nationally and internationally wasteful, for it leads to the competitive production of large quantities of goods that are not really needed, to underselling, dumping, and similar evils.

Let me take first the objection that a casual or unskilled labourer has no "right" to any share in the profits of a business which pays him a just wage. Here the emphasis is on the word "right"; and I readily admit that it is ambiguous unless it be precisely defined. The famous French "Declaration of the Rights of Man" was a sort of profession of religious or moral faith in men's natural rights, for it is not demonstrable that man has any natural rights at all. In the same way the equally famous American affirmation that "Man has a natural right to life, liberty, and the pursuit of happiness" is, strictly speaking, an assertion, and nothing more. The term "right" can only be properly used of some privilege or status arising from a recognized grant, convention, or bargain whether it be a privilege bestowed by a sovereign or the hypothetical "social contract" of Rousseau or the moral conventions tacitly or explicitly accepted as governing the behaviour of individuals in a society. One cannot say that a man has a "right" to be born or a "right" to die. Children are born and all human beings die. It is sometimes denied that men have a right to kill themselves. Yet they often commit what is called

*felo de se*, or the crime of suicide. Does it follow from the denial of the right to commit suicide that men have a right to live? In practice many communities, including our own, draw this conclusion. It is thought so expedient that men should not commit suicide out of despair or die of starvation that it is felt to be socially right, even when they are unable to earn their own livings, to make some provision for them at the public cost. If the workless have a right to this provision they can only possess it on grounds of social expediency; and it will, I think, be found on closer examination that all social rights, legal and other, save only the "rights" of a victor, arise or have arisen from what is or was believed to be, at a given moment, socially expedient.

If this assumption be accurate, the right of a casual or unskilled labourer to share in the profits of the undertaking which employs him is a question of social or industrial expediency. Should the denial of this right engender such discontent or distrust among wage-earners that they only put a bare minimum of effort into their work, or even combine for the purpose of changing the whole basis of industrial production, it may be socially and economically expedient to remove their ill will and distrust by admitting them to partnership in varying degrees according to the services they render. Under present conditions I am persuaded that this step, even if it entail the recognition of a "right," would be socially and industrially expedient.

The argument that the industrial conflict is far more a conflict between underpaid manual labour and overpaid brain labour appears to me doubtful. There have been cases in this country in which co-operative factories, owned by the workmen themselves, willingly paid high managerial salaries to competent men because it was seen that these men, with their special gifts and training, could render services which the workmen were incapable of performing for themselves. As far as my experience of wage-earners goes, they are quick to admit the value of brains. Indeed, some Trade Unions pay to their secretaries or leaders salaries which efficient managers would not disdain. Among the skilled Trade Unions the aristocratic principle was long upheld that craftsmanship ennobles, and that organizations of unskilled workers had no claim to be recognized as Trade Unions proper. The struggle to secure this recognition was long and bitter. To-day these older distinctions are harder to maintain, for machinery is rapidly swelling the ranks of unskilled labour. But ought those who take a wider than a Trade Union view of the industrial problem to deny on this account that unskilled labourers have any rights at all beyond their right to the competitive price at which they may be able to sell their labour?

The answer to those who fear that the attraction of risk would be eliminated if employee partnership became general is that the additional percentage

of profits proposed as an insurance against loss of capital would, in hazardous undertakings, naturally be raised in proportion to the risk to be run. It is true that the largest amounts of capital are always invested in safe securities, such as Government loans at low rates of interest, and that the safer an industrial investment the more certain is that industry to command all the capital it may need. But in so far as the gambling instinct enters into the spirit of enterprise, this instinct might operate the more powerfully in proportion to the wage-earners' voluntary acceptance of the risks that might be thought worth while. Soon after the War I heard one of the biggest British textile employers explain to a body of French textile manufacturers how it was that the ten thousand men he employed had never struck work. "We always take the men into our confidence," he said. "Sometimes we are offered contracts on terms that show little or no margin of prospective profit, and certainly no margin if the men were slack or were to insist upon all their claims for overtime pay. So we put our cards on the table, and tell the men that, after we have allowed for a return of 5 per cent on capital and for their ordinary wages, we can take on the job if they will go into the gamble with us. If they will do their best, and we are smart in our buying of raw materials, we may all earn some profit and go halves in it. The men always take on the gamble, and seem to find it good sport to make the contract pay."

I am quite sure that wage-earners would always go into a gamble of this sort if they knew they were getting a square deal. After all, it is less hazardous than betting on horse races or prize fights or greyhounds—practices which, I am credibly informed, are not absolutely unknown among wage-earners in this country. It all comes back to the same thing—that the essence of industrial and social peace is to get rid of distrust and to foster faith in fair dealing.

This faith will be fostered among human beings if their fundamental sense is satisfied that, as human beings, their welfare is superior to that of inactive capital. It cannot be satisfied as long as human labour is treated merely as one of the raw materials of industry while capital behaves as the supreme master and autocrat. The truth is the reverse. Capital is one of the raw materials of industry, and the enrichment of human life is or should be the supreme aim of industrial enterprise. Abraham Lincoln said truly: "Labour is prior to and independent of capital. Capital is only the fruit of labour, and it could never have existed had not labour first existed. Capital has rights which are as worthy of protection as any other rights, but labour is the superior of capital and deserves much the higher consideration." The deep fallacy underlying the present industrial and social system is expressed in the term "the labour market." There is and should be a market for capital. There should not be, in



anything like the same degree, a "market" for labour by brain or hand.

Once the principle of the superiority of human claims upon industry is conceded, many difficulties that would otherwise be insuperable fall into their places and become more tractable. Such, for instance, is the question of a share in control. This is purely a matter of expediency. Control by one or a few partners may be more efficient than control by many, and delicate matters of policy are often better decided by a few able minds than by an average of more minds less able. If a share in profits is thought by the majority of employees to be sufficient recognition of their partnership status, and if they have perfect confidence that the capitalist partners or the management are controlling the business to the best advantage, there is little more to be said. But should profits fall off, or when risks that have been run turn out to be bad risks, doubt and discontent may easily arise if profit-sharing employees, or their representatives, have had no knowledge of or voice in the matter. It would be less satisfactory to admit them to a share in the councils of the concern after the harm had been done than it would have been if losses had been incurred or risks run with their previous knowledge and assent. Here, again, it is a matter of expediency. My own view is that, in these things, it is well to budget for the future, to look ahead to a time when wage-earning partners may desire a share of

representation in the control and management, and to forestall any discontent on this score by providing against it betimes. I am well aware that many, probably most, human beings like to be saved thought and worry, that they prefer to have things done for them and not to be burdened with individual responsibility. Yet there is usually an active minority who think otherwise, and distrust is often fomented precisely by the members of a minority who feel that they have somehow been deprived of what should have been their due.

\* \* \*

Turning now to objections "after the event," it is possible that the general introduction of employee partnership, and the increase of industrial efficiency that might result from it, would intensify competition between rival undertakings. Not less possible is it that undertakings, intelligently run on employee partnership lines, would find it even easier to eliminate competition between themselves than rival capitalist undertakings have found it. Doubtless, combines between employee partnership concerns would not necessarily be more careful of consumers' interests than capitalist rings and combines have been, inasmuch as the collective selfishness of employee partners is not certain to be more humane or public-spirited than the individual selfishnesses of employers have been. In all these matters, and in the organization of industry as a social service,

some degree of supervision on behalf of consumers may be indispensable. This I have long thought; and as I fancy Mr. Frank Hodges, the former Secretary of the Miners' Federation, could testify, I only approved of the terms on which it was proposed to settle the coal strike in 1920—when my approval of them happened to be important—after inserting into those terms a proviso that to any board or joint council of employers and wage-earners which might be formed, a public trustee should be appointed to watch over the interests of the consuming community. I anticipate very little trouble on this score if and when public spirit on the part of capitalists and wage-earners becomes sturdy enough to inspire them to recognize, as between themselves, that the human element comes first. Then they may be less prone to imagine that the frontiers of mankind are exactly conterminous with those of the special interests of individual undertakings.

The other objections under this head—such as the laying of more stress on service than on the profit motive in industry, and the desirability of allowing fuller scope for mental and physical development, together with national and world-planning for productive industry as a whole—raise issues which transcend the immediate question of how to banish distrust from the relations between capital and labour. They belong to the larger dimensions of the social problem, and come up for

consideration within those dimensions. What are these larger dimensions? Politically and socially, nationally and internationally, we may begin to measure them by certain facts. One of these facts is that many millions of human workers are to-day persuaded that only under some system of collective control over all the means of production and distribution, a system to be established by the supremacy if not the dictatorship of the proletariat, or "have nots," can the evils of private capitalism be overcome. To establish this collective ownership many Socialists or Communists would be prepared to carry through a revolution by violence and, in any event, by some species of coercion and constraint. Another fact is that against this collectivist, Socialist or Communist ideal, with its doctrine of proletarian constraint, stand the partisans of coercion, preferably violent, by armed factions under the dictatorial leadership of some supreme Fascist or Nazi political gangster. Not a few ostensible lovers of law and order, possessors of a "stake in the country," and others who think themselves Conservative, feel something more than a sneaking sympathy with this idea of truculent and hypothetically efficient gangsterdom. They scarcely pause to reflect that by accrediting violence on the part of black-shirted, brown-shirted, or other armed factions, they are giving a warrant to violence as a political and social principle and are staking everything, all their rights and liberties, upon the

triumph of the special sort of violence they approve of. Should by any mischance their brand of violence fail to establish itself, should it disintegrate from within or be overthrown from without, these curious Conservatives would doubtless invoke, against Communist or Socialist violence, all the Liberal principles of individual right and freedom upon which they had so light-mindedly turned their backs. Then it might be too late. "Of wisdom after the event," runs an Italian proverb, "the ditches are full." Wisdom before the event would seem to be wiser.

Nor do hankerers after political gangsterdom in their own favour pause to reflect that a violent habit of mind does not usually work in one direction only; and, if some Italian precedents be any guide, Fascism or Nazism is quite capable of trampling upon capitalist and other private financial interests as its purposes may require. In saying this I have not so much in mind the methods of uncontrolled finance by which the Italian Fascist Government has used and is using for Fascist ends, at home and abroad, the savings deposited by the people in savings banks, as the high-handed expedients which Signor Mussolini has employed to bleed individual capitalists on behalf of the Fascist State. After inviting them to invest their surplus capital in Treasury Bills and other forms of floating debt, at par, on the understanding that these advances could always be repaid with interest at short notice, he

suddenly consolidated the floating debt and paid off the confiding capitalists with Government stock standing at 25 per cent discount in the market. Thus they found their liquid assets not only "frozen" but unsaleable save at heavy loss.

Drawbacks like these may seem a small price to pay for salvation from Communism. But the end of Fascism and Nazism is not yet. Nor is it proved that the dragooning of industrialists, wage-earners, and professional men into guilds or corporations, under an armed faction in control of the State, is intrinsically preferable to voluntary partnership and association under representative democratic systems. Still less is it proved that democracies cannot develop, by methods of free co-operation, social structures and forms of government at once less dangerous and, in the long run, more efficient than those founded upon "totalitarian" unfreedom.

\*       \*

If any industrial State, faction-ridden or free, had succeeded in solving the problem of unemployment, the imperfections of its political or social organization might perhaps be condoned. But nowhere has the problem been solved; and I do not believe that there can be any lasting solution until the right relationship between machine production and human labour and control has been found and exemplified in practice. True, some checks already operate to retard the installation of fresh "labour-saving"

machinery and the human worklessness they entail. Large industrial undertakings and combines have recognized that new and still more efficient inventions would render obsolete older and less efficient plant before it has paid for itself. I could quote an instance in which a large motor combine paid an inventor many thousands a year, ostensibly for the option of using his invention, but really in order to prevent it from being used. Yet there always comes a point at which some other capitalist, or group of capitalists, buys and installs still newer inventions and compels its competitors to follow suit on pain of being driven out of the market. The new machinery, in its turn, dispenses with more human labour and tends to depress the labour "market" by casting more unemployed wage-earners on to it. And so the sorry process goes on without any guarantee either of finality or of promoting what the Utilitarians called "the greatest good of the greatest number."

\*   \*   \*

If there be a remedy, in what direction does it lie? And can there be a remedy in a world where one country is able to manufacture, with the most modern machinery and sweated labour, wide ranges of goods at prices which defy competition on the part of countries whose workers have been accustomed to higher standards of life? This international evil is, in effect, economic warfare against which

concerted action may have to be taken if any degree of social stability is to be preserved. There would be little point in outlawing political warfare by armies, navies, and aircraft if economic warfare, or the spirit of economic violence for individual or national advantage, were allowed to riot unchecked. No efforts to solve national problems of unemployment can succeed if such efforts are liable to be defeated at any moment by economic attack from without. To this extent, and in this sense, economic planning, national and world-wide, may be indispensable to social and to international peace.

Meanwhile there remains the insistent problem of how best to settle the relationship of machinery to unemployment in countries like our own. Arrangements for shorter hours of labour and for a shorter working week have been suggested and, in some instances, are being tried. They may be effective and even beneficent—on two conditions. One condition is that the rewards of labour and the wage-earners' standard of life shall not be reduced proportionately to the decrease in the number of hours worked; and the other is that the machines themselves shall no longer be owned and controlled solely by individual capitalists or investors. Otherwise the majority of wage-earners will end by being enslaved to machines, and will become effectively the serfs of those who own the machines. And a very hardy species of optimism would be needed to believe that this process could long go



on without violent disturbances destructive alike of social welfare and of political and social stability.

Nor is this all. Mechanization is bound to raise a further question which anxious eyes have long descried on the horizon though few have hitherto looked at it steadily. Among the few is Dr. L. P. Jacks, who has examined, with his habitual insight, the problem of increased leisure. In order to understand the significance of unemployment, he wrote in 1932, it is of the utmost importance to consider not only *the number of persons unemployed*, which is where consideration of it usually stops, but *the total amount of unemployed time* which the community has or is likely to have, as we say, "on its hands." Even were it possible to find employment for everybody by what is known as "work-spreading" (employing a larger number on shorter hours), the total amount of time left unemployed at a given moment would remain unaffected. Hitherto, he urged, our methods of education have been adapted to a state of society where labour counts for the longer and more important parts of life, and play or leisure for the shorter and less important. Play, of course, is provided for and encouraged, but its function is that of a necessary interlude in work rather than an essential part of life. It is looked upon as having only the value of rest and refreshment for the resumption of work. Should a time ever come when the present proportions of labour and leisure were reversed, labour becoming the short

and leisure the long part of our lives, our ideas about leisure in general, and especially about the function of education in regard to it, would have to be revised. Already, thanks to the way in which machinery is taking over the burden of human toil, this reversion of proportion is in actual and rapid progress. There is talk of a five days working week and a four hours working day in the near future. With leisure to be dealt with in these huge quantities it should be apparent to all thinking persons that the fate of civilization would depend on the use that was made of it. Dr. Jacks imagines that under these conditions a proposal to found a School of Play, a College of Leisurecraft, or National University of Recreational Art would seem as reasonable as it now seems unreasonable to those who have never thought about the matter. And he quoted a letter received from one of the unemployed, an educated man, who said: "My education prepared me, though not too well, for my job. But now that my job has ceased I am become like an empty barrel."

To me it seems that this problem of leisure, which cannot be overlooked in any review of present and prospective industrial conditions or in any quest for social peace, need not be so formidable as it may appear at first sight. It is, as Dr. Jacks perceives, mainly a problem of education. Quite recently a woman employed in a large factory where gramophones and gramophone discs are made, was

offered work more varied than the semi-automatic movement of the arm and hand to which she was accustomed. She refused, and explained her refusal by saying: "No, I do this work almost unconsciously, and it leaves me free to think about other things." This woman's chief interest in life was not in the work she did, but in the "other things" she could think about, and the quality of her life depended upon their quality. As the process of mechanization goes on, a very high proportion of manual labour may be of this semi-automatic kind, and "other things" will bulk more and more largely in workers' minds. If the other things are merely more dancing, more cinemas, more football matches, more greyhound racing, our social progress will become a mockery and our civilization will decline and decay. If, on the contrary, they are a higher level of life, more physical and mental health, more private craftsmanship even as a "hobby," more artistic excellence, more disinterested scientific research, and greater fitness for social service or self-devotion to the public weal, we may get a civilization that will make our present state seem barbarous by comparison.

Yet, in the absence of these "other things," the decrease of hours spent in machine-tending and the increase of ill-employed leisure is not the only threat to our civilization. Another threat is that of destruction by international war—the menace which, in truth, hangs over the whole Western world. No

degree of economic readjustment will avail to save us unless the threat of war be removed; and against this danger I can see but one effective safeguard—the resolve that war for national advantage shall be effectively outlawed, and that if any country attempt it or prepare for it that country shall be treated as an outlaw. We need a common law of nations firmly supported by the full strength and resources of the members of a real international community. In upholding this law there could be no neutrality, no standing aside, no assertion of individual sovereignty, but only a pooling of resources and efforts for a common end. It is national insistence upon national sovereignty, if only to the extent of claiming a right to stand aside in punctilious neutrality between right and wrong, that forms the chief obstacle to the organization of the world for peace. And just as truly it is the assertion of individual sovereignty over capital and wealth, and of the right to employ them for individual gain irrespective of the superior human right of others, that forms the main obstacle to the attainment of a true and progressive social peace.

\*       \*

In this respect there may be more than a grain of truth in the affirmations of the *Communist Manifesto*: “Abolish the exploitation of man by man, and you abolish the exploitation of one nation by another”; and “When the antagonism of classes

within nations shall have disappeared, the hostility of one nation towards another will likewise disappear." If "the exploitation of man by man" be understood as the exercise of unlimited sovereignty by economically stronger over economically weaker individuals or classes, it is clear that the exercise of this sovereignty must lead sooner or later to conflict. And it is true that a community inwardly at peace will be less likely than a people inwardly in conflict to seek a diversion from domestic passions in some foreign quarrel that will override them all. It is probable, too, that a community which has discovered for itself a way to social peace will favour peaceful methods of intercourse with other peoples lest its own peace be endangered.

Beyond this point it may not be safe to pursue the analogy between social and international peace, unless it be admitted, as I have dogmatically asserted, that the progress of civilization can be expressed in terms of the limitation of individual and national sovereignties, since such sovereignties, so long as they are unlimited and are arbitrarily exercised, tend to foment distrust and strife. Now there are only two ways in which individual sovereignties, personal and national, can be successfully curtailed. The one is by co-operation involving the voluntary surrender of some degree of sovereignty through concession or agreement; and the other is by the forcible subjugation of individual sovereignties to a more general sovereignty.

In France, England, and elsewhere, unruly princelets, barons, and other feudal potentates were gradually brought by drastic coercion into subjection to a stronger overlord or monarch. And in Great Britain, from Magna Charta onwards, the sovereignty of the supreme monarch himself has been progressively curtailed either by the imposition upon him of constitutional limitations or by the monarch's willing acquiescence in extensions of representative popular control. In recent decades the movement in this direction has gone so far that the English people have, to all intents and purposes, nationalized their reigning house to such a point that the whole nation now looks upon the King, the Queen, and the Royal Family as belonging to it—indeed, as a priceless national asset—and has ceased to look upon itself as belonging to the Crown.

There is an instructive likeness between the way in which constitutional government has developed in this country and the path to social peace. If King Capital and King Labour are to draw up their forces in hostile array, preparing for a conflict in which one side shall prevail over the other—or in which both may be weakened or ruined because neither is prepared to abate its claims to actual or prospective sovereignty—we may have to pass through many a bitter and anxious hour before any real approach to social peace can be made. Yet if King Capital and King Labour survey their forces and, without

joining battle, try to see how their several claims can be reconciled and their strength be put forth in concord rather than in strife, the result might be expressed in terms of addition and multiplication, not in terms of subtraction and division.

My own belief is that the initiative should be taken by what has hitherto been the stronger side, the side that has possessed the wealth, the privileges, the economic and intellectual advantages. I am not blind to the possibility, which may be a probability, that advances from the leaders of the capitalist forces to the organized forces of labour would be construed either as signs of weakness or rejected by those who hope so to use their numerical superiority as to gain complete sovereignty for themselves. But over and against this possibility or probability stands the countervailing prospect that, before the forces of labour could win a complete victory, they might themselves undergo defeat at the hands of what Mr. Brailsford has called "a militant middle class, with its dare-devil younger generation to lead it." The examples of Fascist Italy and Hitlerite Germany, where the militant middle class has confided its interests to dare-devil political factions, are not more encouraging to organized labour than is the example of Bolshevist Russia to capitalist society. Surely it is not beyond the genius of this country, with its long tradition of political and social reform, its spirit of fair play and of equitable compromise, to find some more excellent way than

that of destructive mutual strife. The way, I believe, can be found if far-sighted leaders of capitalist industry will look for it and follow it boldly. Whether the principles of employee partnership on the New Zealand model be adopted from the outset, with their deliberate recognition that human labour is, on principle, entitled to a reward exceeding that of capital, or whether the equality of capital, brains, and labour be taken as the starting-point, may not, at the outset, be of decisive importance. But I should like to see some big undertaking deliberately put the rewards of active human work in production above those of capital, and take as its avowed aim the creation of economic citizenship alongside of the political citizenship which all adults now enjoy. I am sure the experiment is worth trying on a larger scale and with fuller publicity than have marked any of the experiments yet tried; and in saying this I cannot do better than cite the words of a young industrialist whose father spent the greater part of his life in an endeavour to improve relations between capital and labour by material benefits alone.

I had been explaining the principles of the employee partnership system to a distinguished company of business men. In the discussion which followed most of them recognized the strength of those principles, but doubted whether they would work well in practice. When the discussion was over a young man approached me and put one or



two shrewd questions, which I answered to the best of my ability. Then he said: "My name is So-and-so (mentioning a name well known in British industry), and I wonder whether you have not hit upon the reason why my father died a disappointed man. All his life he worked and thought and planned to promote the welfare of his employees, but he never quite succeeded in gaining their confidence or their good will. Perhaps if he had frankly recognized that they were entitled not only to share in material rewards, to be well housed and properly looked after, but to be given, as men, a status as real partners, with some voice in the working of the concern, he would really have found the solution he dreamt of and sought so long."

I, too, think that if public-spirited leaders of industry will set themselves to study this great matter in all its bearings they may find the way to social peace and, in finding it, put this country in a position to set a saving example to the rest of the world.

Acc. No.	11112
Class No.	D. 6.
Book No.	27



GEORGE ALLEN & UNWIN LTD  
LONDON: 40 MUSEUM STREET, W.C.1  
CAPE TOWN: 73 ST. GEORGE'S STREET  
SYDNEY, N.S.W.: WYNYARD SQUARE  
TORONTO: 91 WELLINGTON STREET, WEST  
WELLINGTON, N.Z.: 8 KINGS CRESCENT, LOWER HUTT

# Democracy in Crisis

by H. J. LASKI

*La. Cr.* 8vo.

*Second Impression.*

7s. 6d.

"Professor Laski faces fearlessly the implications of a situation new in its conscious pressures and definitely revolutionary in its possibilities."—*Manchester Guardian*

"A very impressive book."—*New Statesman and Nation*

"A model of clear and fair thinking upon a vital political question."—*Liverpool Post and Mercury*

"A highly disturbing book; immensely able, lucid, profound."—*Listener*

*By the same author:*

A GRAMMAR OF POLITICS. 2nd ed. 5th impression. 18s.

AN INTRODUCTION TO POLITICS. 2nd impression. Cloth, 3s. 6d., paper, 2s. 6d.

STUDIES IN LAW AND POLITICS, 10s. 6d.

THE FOUNDATIONS OF SOVEREIGNTY. Cheaper edn. 2nd impression. 10s. 6d.

# Unemployment and Plenty

by SHIPLEY BRAYSHAW

*Cr.* 8vo.

*Swarthmore Lecture, 1933*

Cloth, 2s. 6d., Paper, 1s. 6d.

This book touches upon a wide range of subjects some of which are dealt with in concise statements supported by references to authorities, thus the abundance that could be produced by modern means is clearly indicated in one section; and the confusion of thought on the present crisis in another. A plea is made for breaking loose from conventional thought and customs, and for facing the position with resolution and courage. Stress is laid on the importance of individual sincerity and faithfulness.

"Says . . . much that is true and valuable, and brings out . . . forcibly the moral, as well as the economic waste and folly, of an unregulated economic system."—J. A. HOBSON (*The Friend*)

# The Money Muddle

And the Way Out

*Cr.* 8vo.

by F. W. PETHICK-LAWRENCE

2s. 6d.

". . . A masterpiece in the art of simplifying the monetary problem. It deserves a very wide sale."—*Daily Herald*

"Mr. Pethick-Lawrence unravels the mystery of money and the price-level with quite admirable simplicity and clearness."—*The Times*

"Interestingly written and devoid of technical terms."—*Aberdeen Press and Journal*

# Inflation?

by IRVING FISHER

*Cr. 8vo.*

Author of *The Money Illusion*, etc.

3s. 6d.

Inflation is a word that is on the lips of everyone to-day, but how many people really understand what it involves? As a leading technical authority on the workings of money, Professor Irving Fisher brings to his explanation a prestige and an understanding that makes this book authoritative. Written simply and clearly it will serve as a primer and a guide for the layman. Every important phase of this complicated problem is discussed. Does inflation cheat the creditor? How will inflation affect unemployment? Who will profit by inflation? Who will lose? How will it affect you? etc. Here is the explanation of what inflation really means, what it may do, where it may go, and what the results may be.

# Booms and Depressions

by IRVING FISHER

*La. Cr. 8vo.*

Author of *The Money Illusion*, etc.

8s. 6d.

"Anything Professor Fisher writes on economic problems must command a respectful hearing."—*Financial News*

"Marked by outstanding merits . . . leaves behind an agreeable impression of clarity and lucidity."—*Scotsman*

"A simple account of business cycles that should prove of real assistance to the general reader."—*Yorkshire Post*

# A Critique of the Gold Standard

*Demy 8vo.*

by H. L. PUXLEY

10s. 6d.

This book is a most convincing explanation of how the Gold Standard works. It is written in a remarkably clear and attractive style, and the points are argued concisely and cogently. In demonstrating that the Gold Standard has broken down the writer explains that the Quantity Theory of Money is an inadequate explanation of what happens over short periods. The determining factor in the rise or fall of prices is the Velocity of Circulation. He goes on to show that a managed paper currency could not guarantee to achieve stability of prices, and he makes a powerful plea for a Workable Gold Standard operated by an international consortium of bankers.

# The Wreck of Reparations

by JOHN W. WHEELER-BENNETT

Author of *Disarmament and Security since Locarno, 1925-1931*, etc.

With an Introduction by Sir Walter Layton, C.H., C.B.E.

Demy 8vo.

12s. 6d.

"This remarkable book is the account of a political drama, which still awaits its final act, played in financial terms."—*The Times*

"A convenient book of reference . . . brightly and clearly written."—*Spectator*

"A fascinating drama, a drama in gold."—*Truth*

## Credit and Peace

A Way Out of the Crisis

La. Cr. 8vo.

by FELIKS MLYNARSKI, Ph.D.

5s.

Professor Feliks Mlynarski is the eminent international financier who was largely responsible for the reconstruction of Polish finances, the stabilization of the Polish currency, and for the successful negotiations for the foreign loan granted to Poland in 1927. The more important of his English works are *The Functioning of the Gold Standard* and *Gold and Central Banks*.

"Professor Mlynarski works out in some detail his proposals for a way out of the crisis. These include a devaluation of currencies in debtor countries."

—*Scotsman*

## From Chaos to Control

by SIR NORMAN ANGELL

La. Cr. 8vo.

Halley Stewart Lecture, 1932

4s. 6d.

"Has all the luminous common sense which has given Sir Norman Angell his special place in public controversies . . . it enforces its points with a pungent effectiveness that claims for it a wide audience."—*Manchester Guardian*

## Retailing and the Public

by LAWRENCE E. NEAL

Joint Managing Director of Daniel Neal Ltd.

Foreword by F. J. Marquis, M.A., B.Sc.

Managing Director of Lewis & Co. Ltd.

La. Cr. 8vo.

Second Impression

7s. 6d.

"A book of considerable importance."—*Country Life*

"An extraordinarily interesting book . . . valuable, essentially practical contribution to present-day economics."—SIR FRANCIS GOODENOUGH (*The Observer*)

"The argument is logical and crystal clear . . . a model presentation."—*Daily Telegraph*

*All prices are net*

---

LONDON: GEORGE ALLEN & UNWIN LTD.

